A Message from the Secretary of the Treasury

March 1, 2001

On behalf of the Department of the Treasury, I am presenting the Department's Accountability Report for the fiscal year ending September 30, 2000. While this report covers the period prior to my arrival as Secretary, I am still pleased to report the important accomplishment of an unqualified audit opinion on the Treasury-wide financial statements for that period. I want to recognize the work of those who produced both that result and this report.

This accountability report contains information beyond financial statements by including the Department's missions, goals and accomplishments, and demonstrates the way in which our diverse functions are tied to the Department's broad economic, financial, and law enforcement missions.

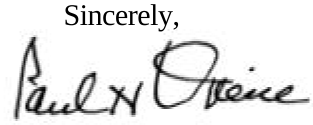
The Department of the Treasury plays a key role in the core functions of government, including tax policy and administration, revenue collection, law enforcement, financial management, banking policy, and international and domestic economic policy. Among other activities, we fight narcotics trafficking and money laundering through our law enforcement agencies, and manage the Federal Government's debt structure. We manufacture and protect the nation's currency, process the benefit payments for millions of Americans, protect our nation's leaders, and help develop policies on the budget, the nation's tax structure, and international economic matters.

Our actions touch the lives of every American, as well as many others around the World. Critical to the continued success of the Department is a healthy and safe work environment for the over 160,000 Treasury employees who carry out this vast array of responsibilities. My personal commitment to health and safety in the work place, as well as to the need to treat every employee with dignity and respect, is unwavering and well documented, and will continue here at Treasury.

I believe that we must continually seek new ways to improve services and lower costs in all of Treasury's varied activities. Treasury will continue to use the Government Performance and Results Act as an integral part of our efforts to establish goals and measure results. This report provides the results of our activities in a manner consistent with the strategic plan in place for Treasury during fiscal year 2000, and all performance measures presented should be considered as complete and accurate as is practicable in that regard. Going forward, Treasury will improve its performance measures to make them more useful in and relevant to the decision-making process, and we will improve the timeliness and accuracy of the information systems that capture and report performance data.

Good stewardship of taxpayer resources is a responsibility I take very seriously. We must provide the taxpayers with real value for the hard-earned tax dollars they entrust to the Treasury. I intend to use this report as a starting place, and to continue to improve Treasury's performance during my tenure here.

Sincerely,



Paul H. O'Neill

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A Message from the Acting Chief Financial Officer

March 1, 2001

After five years of steady progress on the quality and timeliness of our financial reporting, Fiscal Year (FY) 2000 produced two important breakthroughs in accountability at the Department of the Treasury. Specifically, Treasury received the first Departmentwide unqualified audit opinion on its FY 2000 financial statements, while utilizing its corporate level Financial Analysis and Reporting System (FARS) data warehouse for processing the necessary accounting data from all Treasury reporting entities.

The importance of reaching the financial milestone of an unqualified opinion is amplified in the context of Treasury's role as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government. Three Treasury bureaus alone -- the Internal Revenue Service, the U.S. Customs Service, and the Bureau of Alcohol, Tobacco and Firearms -- accounted for almost 98 percent of all revenues collected by the Federal Government during FY 2000, totaling almost $2 trillion in net revenue.

Further, surpluses of the past three years allowed our Bureau of Public Debt to reduce the number of marketable debt offerings, effectively reducing total debt owed to the public, including interest and discount, from $3.790 trillion in FY 1997 to $3.427 trillion in FY 2000. Total debt, including intra-governmental holdings accounted for by our Bureau of Public Debt, total $5.680 trillion for FY 2000. In addition to these significant achievements in our central, cash management activities, Treasury achieved numerous other successes in its diverse set of programs dealing with U.S. and world economics, enforcement activities, banking oversight, and voluntary compliance with our nation's tax laws. This report highlights the Department's specific performance in each of these programs.

Special mention needs to be made of the progress made in FY 2000 by the Internal Revenue Service (IRS) on previous qualifications to its administrative financial statements, which prevented both this key bureau and the Department from achieving unqualified audit opinions. We are proud of the fact that the IRS successfully took appropriate corrective actions to overcome administrative systems limitations and achieved its own unqualified opinion at the bureau level. Planned systems improvements are also underway to ensure the sustainability of these results in future years.

Though the foundation for sound financial management has been completed, this report identifies several issues that remain high priorities across the Treasury. Areas needing ongoing attention include: data security; IRS and Customs systems modernization; governmentwide audited financial statements; and other financial management weaknesses, such as IRS accounts receivable. Nevertheless, an important by-product of improving Treasury's financial reporting has been a reduction of nearly 50 percent in material management control weaknesses Departmentwide from our FY 1998 baseline -- a performance trend we intend to continue, along with improved performance measurement and cost accounting information for program decisionmakers.

Sincerely,

Steven O. App

Steven O. App

EXECUTIVE SUMMARY

Introduction

As the primary economic advisor to the President, the Secretary of the Treasury has responsibility for formulating and recommending domestic and international financial, economic, and tax policy; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

The Department of the Treasury has been preparing the Accountability Report since Fiscal Year 1995. This Report presents our audited financial statements, as well as various program highlights, budgetary information, material financial and program weaknesses, status of audit recommendations, and Prompt Payment Act information.

Organization

The Departmental Offices functions as the "headquarters" for Treasury, and also carries out many domestic and international responsibilities. There are eleven Treasury bureaus, which manage various programs to support the four strategic mission areas.

The Department's FY 2000 operating budget for salaries and expenses was $12.4 billion, with 143,715 full time equivalent employees.

Mission

The Department's strategic plan identifies three programmatic mission areas, covering its ***economic***, ***financial***, and ***law enforcement*** responsibilities, and a fourth ***management*** mission area. Program performance measures were developed for each of the goals and objectives as required by the Government Performance and Results Act to evaluate the Department's programs.

Financial Statement Highlights

The Department's financial statements are presented in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated as the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants

In FY 2000, the Department received its first overall unqualified audit opinion. This is a significant accomplishment in that the auditor's overall FY 1999 opinion was qualified.

As of September 30, 2000, Treasury's total assets were $5.8 trillion, and total liabilities were $5.7 trillion. The major liability is Federal debt held by the public in the form of Treasury marketable Notes and Bonds. Liabilities also include non-marketable securities held by various Federal agencies. Net cost of Treasury operations for FY 2000 was $12.4 billion, not including $365.4 billion for interest on the Federal debt. Total net revenue collected on behalf of the Federal government was $2 trillion.

Program Highlights

The following presents selected program initiatives and activities during FY 2000, which contributed to Treasury's success in achieving its four mission areas.

Economic Mission: Promote Prosperous and Stable American and World Economies

Treasury seeks to maximize the potential of the U.S. and world economies for growth and stability. In pursuit of this, the Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing an economic and government financial policy perspective to issues facing the government.

In the domestic area, Treasury develops policies and provides guidance affecting fiscal matters, financial institutions, financial regulation, and capital markets. Treasury provides advice and assistance to the President in the areas of domestic finance, banking, and other related economic matters, including issues relating to financial institutions, federal debt finance, federal cash management, financial regulation, capital markets, and U.S. Government accounts and payments. Key accomplishments during the fiscal year include:

- Reducing the Public Debt, due to the surpluses in fiscal years 1998, 1999 and 2000, thereby reducing total debt owed to the public including interest from $3.648 trillion at year-end FY 1999 to $3.427 trillion at year-end FY 2000;

- Contributing to the Administration's policy decisions to promote both reform and solvency in the Social Security and Medicare programs;

- Providing increased financial assistance through the Community Development Financial Institutions (CDFI) Fund to improve the economies of distressed communities. In FY 2000, $1.1 billion was provided to Bank Enterprise Awardees (57 percent over target); and,

- Improving and modernizing the U.S. Financial system, while providing effective oversight over the federally chartered national bank system and thrift institutions.

In foreign affairs, Treasury is the principal Cabinet agency charged with developing policies and guidance in international monetary affairs, international debt strategy, U.S. participation in international financial institutions, and plays a major role in developing trade and investment policy. Key accomplishments during the year include:

- Securing a major U.S. commitment of $600 million for the most Heavily Indebted Poor Countries (HIPC) Trust Fund to reduce the debt owed to regional development banks by 32 HIPCs (the HIPC initiative);

- Leading the push for reforms at International Financial Institutions, namely the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs). At Treasury's urging, the IMF made considerable progress in implementing a major new reform initiative. This included a review of IMF lending mechanisms to focus on short-term lending for emergencies, more detailed financial disclosures by borrowers, and use of internationally accepted standards for transparency of financial and monetary policy. In FY 2000, the U.S. and its G-7 partners launched a new reform initiative to improve the way the MDBs do business and to redefine core thinking about development and assistance.

- Establishing the Financial Stability Forum (FSF). Treasury proposed and helped establish the FSF in 1999 to promote international financial stability through cooperation and exchange of information. In 2000, three FSF working groups received G-7 and G-20 approval for their reports and recommendations for adoption of standards for risk management, disclosure practices among financial institutions, and improved oversight of creditor institutions; and,

- Helping secure Congressional approval for Permanent Normal Trade Relations with China, thus giving impetus to China's efforts to become a member of the World Trade Organization (WTO). This is expected to happen in 2001 and result in lowered trade barriers between China, the U.S. and other WTO members.

Financial Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances by collecting money due to the United States, making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. Key accomplishments during the year include:

- Collecting a net total of $2 trillion from taxes, fees, duties, fines and penalties;
- Leading a bi-partisan effort to develop and enact legislation to repeal the foreign sales corporation provisions of the Internal Revenue Code and revise the taxation of extraterritorial income;
- Making changes and revisions to approve and expand electronic filing, implement protections on certain penalty and interest provisions, make a difference in the lives of innocent spouses, and strengthen taxpayer rights in collection and audit situations. Actions were also continued to combat the proliferation of corporate tax shelters, protecting against unintended revenue loss, and preserving the integrity of voluntary tax compliance;
- Maximizing voluntary tax law compliance to emphasize customer service programs at each phase of the filing process. In FY 2000 this included improved telephone service to answer questions 24 hours a day/seven days a week, dedicated "Problem Solving Days" to provide face-to-face assistance to taxpayers, rewriting the most frequently used taxpayer notices to make them easier to understand and easier to complete, and expansion of electronic filing alternatives;
- Collecting $2.6 billion of Debt Collection Improvement Act (DCIA)-related debts during FY 2000, surpassing the targeted goal of $2 billion;
- Increasing the percentage of Federal payments transmitted electronically from 58 percent in FY 1997 to 70 percent in FY 2000;
- Improving the integrity and quality of agencies' budget execution data and eliminating year-end reconciliation problems with the Office of Management and Budget (OMB) by implementing the Federal Agencies Centralized Trial Balance System II (FACTS II) ;
- Reintroducing the buyback of outstanding Treasury securities for the first time in 70 years. During FY 2000, 13 buyback operations were conducted which repurchased over $21 billion;
- Introducing successful coin programs while holding down the cost of coinage; and,
- Completing the introduction of the first new currency design series in over 70 years with the release of the redesigned $5 and $10 notes. All of the redesigned notes incorporate advanced counterfeit deterrent features to thwart technological advances available to counterfeiters.

Law Enforcement Mission: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America

Treasury's effort in the law enforcement area represents a significant amount of the total Federal Government's law enforcement activities. The Department helps foster a safer nation by protecting our borders, preventing drug smuggling, protecting the President, Vice President, and visiting foreign dignitaries, combating violent crime, suppressing counterfeiting, fighting money laundering, preventing financial crimes against the currency of the United States, and training the vast majority of Federal law enforcement personnel. Key accomplishments during the year include:

- Seizing or assisting in the domestic seizure of a total of $204.1 million in monetary instruments, which was below the Customs goal of $336.6 million. However, the primary reason for this shortfall was the shift in outbound cash smuggling methods used by criminal organizations, partially due to the success of Operation Casablanca and other high profile money laundering operations;

- Seizing $191 million in counterfeit U.S. currency in foreign countries prior to circulation. The Secret Service also suppressed 27 counterfeit plant operations in foreign countries;

- Seizing 2,600 pounds of heroin, 150,000 pounds of cocaine and 1,291,000 pounds of marijuana before entry into the United States;

- Providing unique investigative expertise to disrupt illegal drug smuggling organizations and, therefore, impacting the availability of illegal drugs in the United States;

- Contributing to the avoidance of $1.56 billion in crime-related costs by working to imprison violent criminals, reducing the criminal misuse of firearms, explosives and fire, and through partnerships, increasing community outreach efforts;

- Providing physical protection to Secret Service protectees at 7,358 travel stops. The Secret Service measures protectee travel activity in terms of travel stops. The 7,358 travel stops represents an all-time high in protection workload; and,

- Continuing efforts by the Federal Law Enforcement Training Center to provide law enforcement personnel with state-of-the-art knowledge and techniques used in the law enforcement profession.

Management Mission: Continue to Build A Strong Institution

Treasury's missions include diverse and critical responsibilities in the programmatic area of economics, finance and law enforcement. This fourth mission area recognizes the need for strong and efficient management processes and administrative support to accomplish our program missions, and includes Department-wide goals and objectives to strengthen our human resources, information technology, financial and asset management, procurement, and equal opportunity programs. In addition, it includes Department-wide initiatives in the areas of customer and employee satisfaction. Key accomplishments and program initiatives during FY 2000 include:

- Taking advantage of private sector marketing expertise and state-of-the-art recruitment techniques, using the Internet, to improve Treasury's capacity to attract and retain talented staff;

- Establishing a Secretary's Award for Diversity to recognize successes in increasing and managing diversity, establishing a recruitment plan for individuals with disabilities, and increasing the overall case closure rate on discrimination complaints by 20 percent over FY 1999;

- Continuing the implementation of the Financial Analysis and Reporting System to produce Treasury's FY 2000 consolidated financial statements and budgetary reports;

- Continuing efforts to identify and correct program and financial management weaknesses;

- Making customer service improvement a Department-wide objective, and several bureaus, especially the Internal Revenue Service, have undertaken particularly noteworthy customer service improvement programs;

- Utilizing Treasury's Capital Investment Review Board to make wise capital investments and effectively manage Treasury assets;

- Ensuring Treasury continuity of operations through security assessments and improvements to controls;

- Meeting or exceeding FY 2000 performance targets at the bureau level in areas such as customer and employee satisfaction; and,

- Drawing on the expertise of Treasury's Office of Inspector General and the Treasury Inspector General for Tax Administration to assist the Department and its bureaus in identifying areas for improvement in program management and financial accounting and reporting.

Systems, Controls and Legal Compliance

Systems Compliance

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies "…implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States government Standard General Ledger at the transaction level."

Over the past three years it was determined that seven Treasury bureaus were not in substantial compliance. One bureau has successfully resolved the conditions. The other six bureaus have prepared system remediation plans designed to achieve compliance at the earliest possible date. The Department is overseeing progress and regularly discusses such progress with the Office of Management and Budget.

Management Controls

The Department had 32 "material weaknesses" in various aspects of overall control environment, as defined in the Federal Managers' Financial Integrity Act. These weaknesses encompass serious shortcomings in such areas as processing controls, automated systems security, physical security, continuity of operations planning, and the quality and accuracy of financial information.

The need for specific corrective action plans has been imposed to resolve the identified shortcomings as expeditiously as possible. The implementation of the plans receives continuous oversight by bureau management. Significantly, in the last two fiscal years, Treasury has achieved a 47 percent reduction in the number of material weaknesses (from 60 to 32).

Compliance with Laws and Regulations

In addition to the laws governing financial systems and management controls described above, the Department is subject to hundreds of other laws and regulations that apply to the conduct of the Department's business. Two of the Department's bureaus, the Internal Revenue Service and the U.S. Customs Service, are each in noncompliance with two provisions of laws or regulations applicable to their respective programs, as described in the Management's Discussion and Analysis Section. The bureaus are taking corrective actions to rectify these situations.

Future Effects on Existing, Currently-Known Demands, Risks and Uncertainties, Events, Conditions, and Trends

Alcohol, Tobacco and Firearms (ATF) – New Building Projects

Initiatives and final congressional authorization leading to new technologically upgraded and safer facilities for the Bureau were met in FY

2000. The new ATF National Headquarters and National Laboratory Center projects are moving ahead, with planned occupation within the next four years.

U. S. Customs Service (Customs)

Customs has formulated plans for systems modernization and has included requests for funding in its budget requests for the last several years. To date, however, no funding has been received for systems modernization. The delay in funding and implementing systems modernization is perceived to be by far the most significant future source of risk and uncertainty in Customs operations.

Customs is also having some difficulties in implementing the Continued Dumping and Subsidy Offset Act of 2000.

Bureau of Engraving and Printing (BEP)

BEP is undergoing major improvements to the infrastructure of its facilities, support systems and equipment.

External environmental factors that may affect BEP include dollarization, the dollar coin, the Euro, competition from private companies for designing and printing postage stamps, extended currency life and new design measures to combat counterfeiting.

Internal Revenue Service (IRS)

The IRS faces many challenges and opportunities as it modernizes, including implementation of the Restructuring and Reform Act of 1998. The IRS is creating a modern structure based around taxpayer needs. Over the last several years, the General Accounting Office (GAO) and the Treasury Inspector General for Tax Administration have issued reports identifying management challenges and high-risk areas within IRS. The new management structure and technology focus, created as part of IRS's modernization efforts, is designed to address and reduce these high risks and mitigate their chance of occurring in the future.

Bureau of Public Debt (BPD)

Given the expectation of continuing surpluses, BPD expects to replace maturing debt with smaller amounts of new debt, conduct fewer auctions, offer a smaller range of Treasury securities and conduct buyback operations (reintroduced in FY 2000 for the first time in 70 years).

ONGOING CHALLENGES

Each year, the Office of Inspector General and the Treasury Inspector General for Tax Administration organizations separately prepare and communicate to Congress lists of major challenges faced by management, as seen from an audit perspective. For the most part, there is a high degree of overlap between items on these lists and the areas having material weaknesses, as well as other lists of challenges prepared by GAO.

From January 1998 to the end of FY 2000, most of these challenges have either been resolved or have planned corrective actions. Also, most planned corrective actions have been implemented on time.

The following management issues continue to be a challenge for the Department and its bureaus.

Internal Revenue Service Modernization and Restructuring

IRS has developed and is committed to an integrated modernization strategy. IRS has implemented a new organizational structure and has made progress in establishing management controls needed to effectively build and implement modern information systems. Substantial work remains with IRS's modernization effort before results are achieved. In addition to systems and organizational changes, reduction of tax form complexity and taxpayer burden, improving the quality of customer service and reducing filing fraud remain as challenges for the IRS.

Law Enforcement Related Issues

Treasury is responsible for programs that include combating crimes against the currency of the United States, preventing money laundering, improving banking supervision, enforcing trade laws, preventing drug trafficking and smuggling, enforcing gun and arson related laws and preventing violent crime associated with firearms, explosives and arson. Bureaus managing these programs have developed plans and are taking necessary actions to address management challenges or high risk areas.

Financial Management Related Issues

Although Treasury has made good progress in resolving some of its financial management weaknesses, we are unable to provide reasonable assurance that the objectives of Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act have been achieved. Treasury will continue to be rigorous in identifying and conscientious in developing corrective actions to resolve its new and existing material weaknesses.

The ability of individual Federal agencies to obtain unqualified audit opinions, and Treasury's ability to improve data integrity and create standard data formats across all agencies, will continue to be critical to the Department's ability to prepare timely, accurate government-wide financial statements that can be audited and submitted by the March 31 statutory due date.

Systems Security

Systems security is another on-going issue within the Department, which receives considerable attention. Material weaknesses in systems security exist at the IRS, Customs and FMS. In addition, the Department's oversight of the bureaus in these matters was identified in FY 1997 as another area needing significant improvement. The Department will continue to direct appropriate attention and resources to this critical issue.

Part 1

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

As the primary economic advisor to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial, economic, and tax policy; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

This year's Management's Discussion and Analysis (MD&A) reporting incorporates the new standards established in the Statement of Federal Financial Accounting Standards (SFFAS) Number 15, issued by the Federal Accounting Standards Advisory Board (FASAB). SFFAS No. 15 established standards for preparing the MD&A to include communicating managers' insights about the reporting entity, increasing the understandability and usefulness of the general purpose financial report, and providing understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future.

The MD&A section of the Accountability Report provides readers with a general understanding of Treasury's basic organizational structure and its many diverse programs which support the four mission areas as articulated in the Treasury-wide Strategic Plan. Because of the complex nature of several Treasury bureaus, a bureau's activities may support one or more strategic mission area and its related goals. Treasury's financial data as of and for the year ended September 30, 2000 and the auditor's opinion on our FY 2000 financial statements, are highlighted in the MD&A. As the financial agent for the Federal government, Treasury has the unique responsibility of collecting various duties, fees and taxes, and borrowing the money that is needed to operate the Federal government and accounting for the resulting debt. These activities are covered in detail in the financial statements (Part II).

This report not only describes various accomplishments achieved by the Department during the fiscal year, but also addresses significant challenges facing the Department in the next fiscal year and future years. Some of these challenges have been identified by the Treasury Inspector General, the Treasury Inspector General for Tax Administration, and the General Accounting Office (GAO) as being high risks to the efficiency of Treasury management and the effectiveness of its programs. Plans for corrective actions to address these issues have been developed by bureau management and are closely monitored by the Department.

ORGANIZATION STRUCTURE AND MISSION

Because Treasury's responsibilities and activities are broad in scope and touch the lives of all Americans, we have developed a four-part mission statement, which describes the purposes of our diverse functions. It includes three programmatic mission areas covering our **economic, financial,** and **law enforcement** responsibilities, and a fourth **management** mission area.

Departmental Offices

The Departmental Offices provides basic support to the Secretary of the Treasury, who maintains the primary role in formulating and managing the domestic and international tax and financial policies of the Federal Government. The Secretary's responsibilities include: recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; managing the public debt; overseeing the major law enforcement functions carried out by the Treasury Department; managing development financial policy; representing the United States on international monetary, trade and investment issues; overseeing Treasury Department overseas operations; and directing the administrative operations of the Treasury Department.

Treasury also has several entities within the Departmental Offices, which perform specialized functions to carry out Treasury's mission.

Community Development Financial Institutions (CDFI) Fund -- The Fund provides access to capital and financial services, which helps alleviate poverty and ensure economic growth in America's most distressed communities.

Financial Crimes Enforcement Network (FinCEN) -- FinCEN's mission is to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes; and to provide U.S. policymakers with strategic analyses of domestic and worldwide money laundering developments, trends, and patterns. FinCEN works toward those ends through information collection, analysis and sharing, as well as technological assistance and innovative, cost-effective implementation of the Bank Secrecy Act and other Treasury authorities.

Exchange Stabilization Fund (ESF) -- The Exchange Stabilization Fund (ESF) was authorized in the Gold Reserve Act of 1934 that provided for a fund to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act, as amended, provides that "consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary."

Office of DC Pensions -- The mission of the Office of D.C. Pensions is to implement the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251), as amended. The Act provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of fund assets and distribution of pension benefits. To varying degrees the Secretary is responsible for three D.C. pension retirement plans; Police Officers and Firefighters, Teachers, and Judges.

Office of Inspector General (OIG) – The OIG conducts and supervises audits, evaluations and investigations designed to: promote economy, efficiency, and effectiveness and prevent fraud, waste, and abuse in Departmental programs and operations; and, keep the Secretary and the Congress fully and currently informed of problems and deficiencies in the administration of Departmental programs and operations.

Treasury Inspector General for Tax Administration (TIGTA) – TIGTA conducts audits, investigations, and evaluations to assess the operations and programs of the Internal Revenue Service and Related Entities, the IRS Oversight Board and the Office of Chief Counsel to: promote the economic efficient and effective administration of the nation's tax laws and to detect and deter fraud and abuse in IRS programs and operations; and, recommend actions to resolve fraud and other serious problems, abuses, and deficiencies in these programs and operations, and keep the Secretary and the Congress fully and currently informed of these issues and the progress made in resolving them.

In addition to the Departmental Offices, Treasury also has eleven bureaus, whose programs and responsibilities support each of the Department's four mission areas. The following section provides a brief description of their missions and the diverse responsibilities, which impact the American public. Readers are encouraged to visit the Treasury web sites, listed on the back cover of this report, for a more detailed description of each bureau's functions and programs.

Bureau of Alcohol, Tobacco and Firearms (ATF)

ATF is a Federal law enforcement organization that serves as the nation's expert on four highly regulated consumer products: alcohol, tobacco, firearms and explosives. These products require special attention due to the important social consequences resulting from their misuse or abuse. ATF represents a uniquely concentrated resource for providing investigative; regulatory; tax collection; technical, scientific and legal expertise relating to these products. This unique combination of tools and skills allows ATF to provide a focused, flexible and balanced approach to protecting the public's legitimate access to these commodities while fighting unlawful use and trafficking.

U.S. Customs Service (Customs)

Customs is the guardian of our nation's borders – America's frontline. It serves and protects the American public with integrity, innovation and pride. It enforces many laws of the United States, designed to safeguard the revenue and foster lawful international trade and travel.

Customs administers the U.S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across our borders, and assessing and collecting duties, excise taxes, and fees on imported and exported goods and services.

Office of the Comptroller of Currency (OCC)

The OCC charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and economy of the Untied States.

Bureau of Engraving and Printing (BEP)

The mission of the BEP is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves. The BEP also redeems damaged or mutilated currency for the public.

Federal Law Enforcement Training Center (FLETC)

FLETC provides quality, cost effective training to various Federal law enforcement personnel, as well as State, local and international agencies, and private security personnel.

The major goals are to provide law enforcement personnel with state-of-the-art knowledge and techniques used in the law enforcement profession; fully develop the cost effective potential through consolidation of Federal law enforcement training at the FLETC; and provide for all basic training direct costs from FLETC appropriations.

Financial Management Service (FMS)

As the financial agent for the Federal government, FMS provides central payment services for all Executive agencies, operates the Federal Government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

Internal Revenue Service

IRS' mission is to provide America's taxpayers top quality service by helping them understand and meet their responsibilities and by applying tax law with integrity and fairness to all. At the Internal Revenue Service, the Mission Statement serves as the central theme and guiding business philosophy for management actions and organizational decision making. The Statement emphasizes serving taxpayers as the key concept behind everything the IRS is doing to modernize.

The new modernized structure is organized around customers' needs. This new structure now has four key operating divisions, each charged with full beginning-to-end responsibility for serving a set of taxpayers with similar needs (Wage and Investment; Small Business/Self Employed; Large and Mid-Size Business; and Tax Exempt and Government Entities).

U.S. Mint

The mission of the U.S. Mint is to manufacture the highest quality circulating, numismatic, and bullion coins at the lowest possible cost and to deliver them in a timely manner; to expand its markets through exceptional customer service, product development, and innovative marketing; to sell numismatic and bullion products at a reasonable price and profit; and, to provide security over assets entrusted to it.

The functional mission of the U.S. Mint can be delineated into three distinct areas of program responsibility. The first functional program is the production of circulating coinage for use by the general population. The second functional program area involves the production and sale of commemorative, numismatic, and investment products. The third functional program area is the protection of U.S. Treasury precious metals and other monetary assets held in the custody of the U.S. Mint.

Bureau of Public Debt

The mission of the Bureau of the Public Debt (BPD) is to borrow the money needed to operate the Federal Government and to account for the resulting debt. The BPD achieves its basic goals by initiating and implementing several programs, such as Commercial Book-Entry Securities, Direct-Access Securities, and Savings Securities.

U.S. Secret Service

The primary objective of the U.S. Secret Service is to provide the highest level of protection possible for all persons authorized Secret Service protection to include the President, the Vice President, and other dignitaries and designated individuals when the protectee is in residence or in a travel status. The Secret Service is responsible for fighting counterfeiting and other criminal threats to our financial system. It is responsible for the investigation of counterfeit currency and securities; forgery and altering of government checks and bonds; thefts and fraud relating to Treasury electronic funds transfers; financial access device fraud, telecommunications fraud, computer fraud and telemarketing fraud; fraud concerning federally insured financial institutions; and, other criminal and non-criminal cases.

Office of Thrift Supervision

The mission of the OTS is to effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs, and to provide access to financial services for all Americans.

Under its primary statutory authority, the Home Owners' Loan Act (HOLA), OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund, and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

Other Reporting Entity Consolidated with The Department of the Treasury:

The Federal Financing Bank (FFB)

The FFB was created in 1973 to reduce the costs of Federal and federally-assisted borrowing and to ensure the coordination of such borrowing from the public in a manner least disruptive to private financial markets and institutions. FFB loans are used primarily to finance direct agency activities such as construction of Federal buildings by the General Services Administration, and meeting the financing requirements of the U.S. Postal Service. In certain cases, the FFB finances Federal direct loans to the public that would otherwise be made by private lenders and fully guaranteed by a Federal agency.

OTHER FINANCIAL HIGHLIGHTS

The following table provides resource information for the Department of the Treasury and its bureaus.

Fiscal Year 2000

Treasury Bureau	Appropriation Enacted (in Millions)	Full Time Equivalent Employees	Total Resources (in Millions)	Total Outlays (in Millions)
Alcohol, Tobacco and Firearms (ATF)	$604	4,417	$726	$582
Office of the Comptroller of the Currency (OCC)	*	2,920	659	(24)
U.S. Customs Service (Customs)	1,871	19,516	4,106	2,317
Departmental Offices (DO) **	579	3,265	43,112	2,965
Bureau of Engraving and Printing (BEP)	*	2,510	618	(60)
Federal Law Enforcement Training Center (FLETC)	114	594	172	120
Financial Management Service (FMS)	201	2,055	9,022	8,660
Internal Revenue Service (IRS)	8,216	97,799	9,346	8,385
U.S. Mint	*	2,676	1,414	(156)
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	177	1,464	482,394	361,664
U.S. Secret Service (SS)	695	5,245	969	858
Office of Thrift Supervision (OTS)	*	1,254	242	13
TOTAL	**$12,457**	**143,715**	**$ 552,780**	**$ 385,324**

* These bureaus operate on self-supporting revolving funds, and do not receive appropriations.

** Departmental Offices also includes the Office of Inspector General, Treasury Inspector General for Tax Administration, Working Capital Fund, Exchange Stabilization Fund, International Assistance Programs, Federal Financing Bank, Treasury Forfeiture Fund, Community Development Financial Institutions Fund, Financial Crimes Enforcement Network, DC Pension, and Treasury Franchise Fund.

FINANCIAL STATEMENT HIGHLIGHTS

The financial statements contained in Part 2 have been prepared from the accounting records of Treasury in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the combined statement of financing, and the consolidated statement of custodial activity; all of which are prescribed by OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

For FY 2000, the Department received its first overall unqualified audit opinion. This is a significant accomplishment in that the auditor's overall FY 1999 opinion was qualified.

The Department of the Treasury's financial statements reflect the entity activities of the Treasury, and certain non-entity functions it performs on behalf of the Federal government and others. Entity activities include the expenditures of appropriations and revenue Treasury received to conduct its operations. Entity related functions also include activities of Treasury's Exchange Stabilization Fund and the Department's Federal Financing Bank. Non-entity activities include the collection of Federal revenue, managing the Federal Debt, disbursing Federal funds, and maintaining certain assets and liabilities for the Federal government as well as for others.

Assets

Treasury's total assets as of September 30, 2000 are $5.8 trillion, which included $168 billion entity assets and $5.6 trillion non-entity assets. Non-entity assets included $5.4 trillion due to Treasury from the General Fund of the Federal Government to pay the principal on the public debt, and tax refunds.

Liabilities

Total liabilities as of September 30, 2000 were $5.7 trillion, which included $44 billion of liabilities covered by budgetary resources and $5.67 trillion not covered by budgetary resources.

Intra-governmental liabilities not covered by budgetary resources totaled $2.24 trillion, including interest payable, in borrowing from various Federal agencies. However, they do not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development. Liabilities not covered by budgetary resources also include Federal debt held by the public, including interest, of $3.4 trillion; the majority of this debt was issued as Treasury marketable Notes and Bonds.

Net Cost of Treasury Operations

The net cost of Treasury operations totaled $12.4 billion for the year ended September 30, 2000. The majority of the costs are in the *Financial* mission, as Treasury is the primary fiscal agent for the Federal government in managing the

Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet demand.

Federal Debt Interest Costs

Treasury's Consolidated Statement of Net Cost includes $369.3 billion for interest on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia.

Custodial Revenue

Total net revenue collected by Treasury on behalf of the Federal Government for FY 2000 was $2 trillion. This includes various taxes, tariff duties, user fees, fines and penalties, and other revenue.

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

Treasury focuses its resources on helping the Nation achieve a number of important public policy goals, including a healthy economy, voluntary compliance with the tax laws, and streets that are safe from illegal drugs and violent crime. The Government Performance and Results Act (Results Act) establishes formal requirements for strategic planning and performance measures in the Federal Government. Treasury has implemented an integrated strategic management process to guide our operations and improve our performance. This process consists of a disciplined effort to accomplish the following:

- Set strategic goals and priorities for the long-term;
- Set annual performance targets;
- Manage and budget to achieve those targets; and
- Systematically report on annual performance.

Treasury continues to refine its performance measures to make them more useful in the decision making process, and continues to strive to improve the timeliness and accuracy of its information systems that capture and report performance data. This section provides a summary of the results of our diverse programs within Treasury bureaus. Readers can obtain detailed information on all of the performance goals and results from the Treasury's Fiscal Year 2000 Program Performance Report, which will be published on March 31, 2001.

ECONOMIC MISSION AREA SUMMARY

Mission: Promote Prosperous and Stable American and World Economies

Treasury seeks to maximize the potential of the U.S. and world economies for growth and stability. The Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing an economic and government financial policy perspective to issues facing the government.

In the domestic area, Treasury develops policies and provides guidance affecting fiscal matters, financial institutions, financial regulation, and capital markets. In this capacity, Treasury oversees the activities of the Office of the Comptroller of the Currency and the Office of Thrift Supervision. In addition, through the Community Development Financial Institutions program, Treasury seeks to promote economic growth in distressed communities by increasing the availability of business capital.

In foreign affairs, Treasury is the principal Cabinet agency charged with developing policies and guidance in international monetary affairs, international debt strategy, and U.S. participation in international financial institutions. It also plays a major role in developing trade and investment policy. While Treasury is a key player in achieving U.S. international strategic objectives, it is difficult to attribute performance to a specific agency because many agencies are involved, issues are complex, and numerous factors affect outcomes.

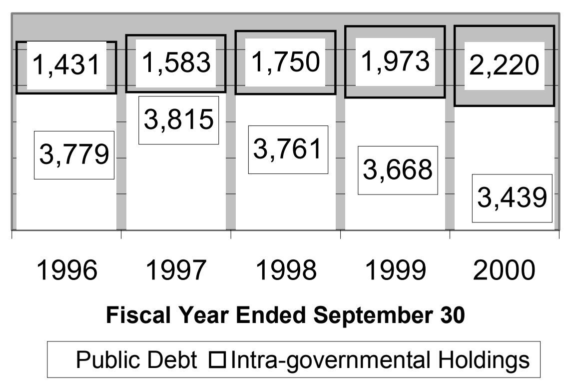
Goal: Promote Domestic Economic Growth

Objective: Reduce Public Debt to No More than $2.3 Trillion by 2005

The purpose of this objective was to shrink the size of the national debt. The Federal budget moved into surplus in FY 1998. Since that time, ongoing fiscal responsibility and a strong economy have produced growing budget surpluses with still larger surpluses projected for at least the next dozen years. As of September 30, 2000, the Department had been operating on the previous Administration's policies that put forward a set of tax and expenditure policies that would, on current forecasts, eliminate the debt held by the public, on a net basis, by 2012.

Federal debt managed by the Bureau of the Public Debt comprises debt held by the public and debt held by certain government accounts, the latter of which is referred to as intra-governmental holdings. As the accompanying chart illustrates, intra-governmental holdings have steadily increased over the past 3 years while debt held by the public has decreased. The primary reason for the increases in intra-governmental holdings is the annual surpluses in the Social Security, federal civilian employee, and military retirement trust funds. The decreases in debt held by the public during fiscal years 1998, 1999 and 2000 are due primarily to federal revenues exceeding federal spending during those years. As of September 30, 2000, gross debt[1] held by the public totaled $3.439 trillion and gross intra-governmental holdings totaled $2.220 trillion.

Total Gross Federal Debt Outstanding
(in Billions)



[1] Gross debt excludes any accrued interest payable and unamortized discount/premium. Accordingly, the gross debt reported here is different than that displayed on the Consolidated Balance Sheet of the Department of the Treasury by those amounts, and the intra-Treasury elimination of debt securities held by any Treasury entity. Further, Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States because the Federal Debt managed by the Department does not include debt issued by other government agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development.

Treasury's **Office of Economic Policy**, **Office of Domestic Finance**, and **Office of Tax Policy** provide to White House and top Administration officials key analyses and information on budget policy and related issues. Treasury also provides critical support with regard to the Budget's revenue proposals by developing options, estimating their revenue effects, and providing explanations of the proposals actually incorporated in the Budget.

In FY 2000, the unified budget surplus was $237 billion, the largest ever in nominal terms and almost twice as large as in fiscal year 1999. Relative to the size of the Gross Domestic Product (GDP), this year's surplus at 2.4 percent was the largest since 1948.

Objective: By 2005, Achieve 75-Year Solvency for Social Security, and Extend the Projected Solvency for Medicare beyond 2025

Tax revenues for Social Security are projected to exceed expenditures until 2015, and additional revenue will result in accumulation of assets through the mid-2020s. However, reflecting an increasing number of retirees relative to workers, total income is then estimated to fall short of expenditures in each year beginning in 2025 until the funds are exhausted in 2037.

The Medicare Part A Trust Fund is also projected to accumulate assets over the near term. However, total income for the Fund is projected to fall short of expenditures beginning in 2017, and the Trust Fund is projected to be exhausted in 2025**.**

The **Secretary of the Treasury** is the Managing Trustee of the Social Security and Medicare Trust Funds, and is supported by Treasury's **Office of Economic Policy**. Treasury plays a leading role in developing economic information that the Trustees use in evaluating the programs and in setting economic assumptions. Treasury also plays an important role in analyzing potential reforms to Social Security and Medicare.

The 75-year actuarial balance of the Social Security Trust Fund improved between the 1999 Annual Report and the 2000 Annual Report, from a deficit of 2.07 percent of payroll to a deficit of 1.89 percent of payroll, and the projected exhaustion date (2037) is three years later than projected last year. The improved financial outlook represents the net effect of several relatively small changes in the economic and demographic assumptions used to make the 75-year projections and some improvements in the projection methods. However, during FY 2000, no legislation aimed at improving the long-term outlook for either program was enacted.

Objective: Improve Retirement Security by Increasing Personal Savings and by Expanding Pension Coverage and Participation

The purpose of this objective was to make Americans more financially secure in their retirement. Many households are woefully unprepared for retirement or financial emergencies. Unfortunately, personal savings for all too many Americans are wholly inadequate to fill the remaining gap between a financially secure retirement and the resources provided by Social Security and an employer-provided pensions, if any.

At the aggregate national level, the personal saving rate has dropped precipitously in the past ten years (from 7.6% in 1990 to 0.4% in 2000). Even after adjusting for the unprecedented run-up in household net worth (the "wealth effect"), the saving rate has eased from the levels prevailing before 1990 (from 7.5% to 6.8%).

Further, although private pension coverage continues to grow, in 1999 only 44 percent of private wage and salary workers were covered under an employer's pension plan, leaving more than half of these workers without the security of pension income for their retirement years. Coverage was less for women, minorities, employees of small businesses, and low-earning workers.

Treasury's **Office of Tax Policy** and **Office of Economic Policy** work with the Department of Labor to develop policy proposals related to retirement and pensions plans. The offices provide in-depth studies and analyses on trends and projections, as well as the implications of policy proposals.

During FY 2000, Treasury worked to improve savings rates and to expand pension coverage. Treasury joined with leading public and private organizations to launch the National Partners for Financial Empowerment (NPFE), dedicated to helping Americans improve their financial circumstances through increased financial literacy. NPFE, with participation by senior Treasury officials, led a nation-wide campaign to promote financial literacy in numerous public events, through a website, and televised public awareness campaign.

Treasury also completed a number of projects and proposals aimed at increasing retirement saving and simplifying the regulatory environment surrounding pension plans. These included a ruling permitting automatic enrollment of new employees in 401(k)s and other similar pension plans, Retirement Savings Accounts (to promote retirement security for moderate- and lower-income working families), and other savings incentives.

Objective: Help Bring Residents of Distressed Communities into the Economic Mainstream by Promoting Fair and Efficient Delivery of Credit and Other Financial Services

The purpose of this objective was to make loans and financial services available to those Americans living in distressed communities so they can better themselves economically. Recent national data indicate that the availability of capital for low- and moderate-income communities is improving. According to the Federal Financial Institutions Examination Council, during the period 1993-99 the number of home purchase loans extended to applicants with incomes less than 80 percent of the median increased 86.2 percent, and to applicants with incomes 80-99 percent of the median 52.1 percent. Access to credit for small businesses in low- and moderate-income communities is also improving, and Federal Reserve data indicate that the number of families with bank accounts is also increasing.

The **Office of Community Development Policy** develops affordable housing policy and community development financial and tax policies, and policies on micro-enterprise development, Brownfields redevelopment, fair lending, the Community Reinvestment Act, improved access to financial services, low-income savings strategies, Empowerment Zones and Enterprise Communities, New Markets, BusinessLINC, the District of Columbia and other matters. The **Community Development Financial Institutions (CDFI) Fund** promotes access and local economic growth by directly investing in and supporting CDFIs and by expanding financial service organizations' lending, investment, and services within underserved markets. The **Office of the Comptroller of the Currency** and the **Office of Thrift Supervision**, pursuant to the Community Reinvestment Act (CRA), assess their institutions' record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The **Community Adjustment Investment Program (CAIP**), a partnership between the U.S. Government and the North American Development Bank, was established as part of the North American Free Trade Agreement to help create and sustain jobs in U.S. communities experiencing temporary job dislocations attributable to changing trade patterns with Canada and Mexico.

Several key performance measures support this objective. As a result of the CDFI Fund's efforts, loans, investments, and services in the amount of $1.1 billion were provided to distressed communities by Bank Enterprise Award (BEA) Awardees (57% over target). However, only 100 CDFIs received financial or technical assistance from the Fund, 35 less than the target. The Fund's FY 2000 planned target of 135 was predicated upon a larger pool of applicants and a high number of certified CDFI's. Although the Fund did make the largest amount of grant awards and loans in FY 2000 since its inception, the number of eligible and certified CDFI's and a pool of only 160 applications for this funding round fell short of the Fund's expectations. After conducting the week-long readers' meeting in March 2000 to determine the most qualified organizations, coupled with on-site due diligence reviews to potential awardees, the pool of quality and certifiable CDFI organizations significantly diminished.

The Community Adjustment and Investment Programs (CAIP) Grant Program was initiated in October 1999 to assist in preservation of jobs in adversely affected areas. Grants totaling $6 million have been approved in the first round; continued work on fair lending initiatives, including achieving changes in Regulations B & C, and working on credit scoring, predatory lending, and sub-prime lending; chaired a joint task force with HUD and issued a report on predatory lending, including recommendations for legislative action to fight predatory lending; and continued to work with the Federal Reserve Bank to push regulatory issues related to predatory lending and with Congress on legislative proposals. In addition, Treasury's Office of Government Sponsored Enterprise and Office of Community Development Policy worked with HUD on HUD's housing goal rules as related to Fannie Mae and Freddie Mac; the proposed rules were published and final rules are in process.

Objective: Improve and Modernize the U.S. Financial System

Modernizing America's financial services industry to improve and enhance services to customers, and to increase efficiencies for financial services companies, has been an important policy objective for many years. The Gramm-Bliley-Leach Act of 1999 made several key improvements by establishing a new financial services system allowing the affiliation of financially-related firms and by allowing nationally-charted banks to expand their activities and offer new services. At the same time it improved the Community Reinvestment Act, and protection of consumer privacy.

Treasury's **Office of Domestic Finance** provides analyses, recommendations, and policy advice in the areas of domestic finance, banking, fiscal policy and operations, and other related economic matters, including development of policies and guidance in the area of financial institutions. The **Office of the Comptroller of the Currency (OCC)** regulates national banks and the **Office of Thrift Supervision (OTS)** regulates Federal savings associations and Federal savings banks.

In October 2000, the federal bank and thrift regulatory agencies proposed rules to implement the Fair Credit Reporting Act's (FCRA) notice and opt-out provisions governing the sharing of information among financial institution affiliates. The rules, proposed by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, OCC, and OTS, explain how to comply with affiliate sharing provisions of the FCRA that have been in place since 1996.

OTS implemented a Customer Service Plan for Examinations in response to the fundamental objective of the National Partnership for Reinventing Government to create a customer-focused government. One outcome of this has been in improving the value of examinations to thrift institution directors and management.

OTS also expects to exceed each of its CY 2000 targets for completing scheduled examinations: safety and soundness at 97% (98% in CY 1999); compliance at 100% (99% in CY 1999); holding company at 91% (88% in CY 1999); information systems at 100%; and trust at 100% (83% in CY 1999).

The OCC achieved efficient and effective risk-based supervision and compliance with the Federal Deposit Insurance Corporation Improvement Act (FDICIA) exam schedule. Of all FDICIA examination exceptions (i.e., examinations scheduled but past due for completion) after June 30, 2000, at least 95% are expected to be limited to those related to conversions, mergers, and system conversions. Further, 100% of critical work (defined as "high-priority examinations, quarterly reviews, and large bank strategies") is projected to be completed on a timely basis.

Objective: Promote the Transparency, Integrity and Efficiency of the Nation's Financial Markets

Treasury is committed to making sure that the Nation's financial markets remain the most liquid and efficient in the world. Following the near collapse of Long-Term Capital Management (LTCM) in 1998, the public and private sectors have been increasingly concerned about the systemic risk posed by the potential failure of such an institution. Treasury continues to work with relevant parties to promote initiatives that will serve to increase the integrity and efficiency of the financial markets.

The President's **Working Group on Financial Markets,** chaired by the Secretary of the Treasury and including the Chairmen of the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), and the Federal Reserve Board, provides a forum for the discussion of relevant issues, and produces reports on subjects of importance to the financial markets. In addition, Treasury works directly with Congress and the private sector on relevant initiatives.

During FY 2000, the President's Working Group on Financial Markets issued a report with recommendations to Congress on modernization of derivatives regulations. Treasury also worked to achieve agreement between SEC and CFTC on single stock futures, a key element of derivatives legislation, and achieved passage of the Commodity Exchange Act Reform Bill as part of final budget appropriation legislation.

Objective: Apply Sound Governmental Financial Policy on All Relevant Governmental Issues

Treasury has an on-going commitment to ensure that Federal lending, investing, and borrowing activities and legislation are consistent with long-standing Treasury policy. Particular emphasis is placed on policies governing Federal credit programs. The number of Federal agency and legislative proposals involving Federal credit policies has increased considerably in recent years. The Federal Financing Bank, a government corporation under the general supervision of the Secretary of the Treasury, continues to play a crucial role in Federal financing. However, the majority of the most recent proposals have involved additional sources of Federal credit assistance.

Treasury's **Office of Domestic Finance** plays the leading role in this area, but works with the Office of Management and Budget, other Federal agencies, and Congressional staffs to achieve this objective. It provides financial and economic analysis for government policy-making processes and legislative proposals involving Government lending, investment, and borrowing. It also ensures that Administration policies and proposals conform to sound government financial policy, and strengthens partnerships with the Chief Financial Officers Council, the Federal Credit Policy Working Group, and other appropriate organizations to identify and articulate government-wide financial policy issues.

During FY 2000, Treasury worked with OMB to revise, finalize and publish OMB Circular A-129, which governs federal credit policies and non-tax receivables. Treasury also provided guidance and direction on a wide range of financial policy initiatives, including the creation of government corporations and government-sponsored enterprises, trust funds, privatization issues, Federal Financing Bank issues, U.S. Postal Service issues, Treasury loans to the Presidio Trust, DC Pension actuarial issues, and Foreign Service retirement issues.

Objective: Protect the Public and Prevent Consumer Deception in Specified Regulated Commodities

The purpose of this objective was to prevent accidents and deception in the alcohol, tobacco, firearms and explosives industries. In recent years, the number of accidental explosions has been relatively stable. At the same time, the number of violations found in the alcohol and tobacco industries per hundred inspections has decreased, while the number of violations has increased in the explosives industry.

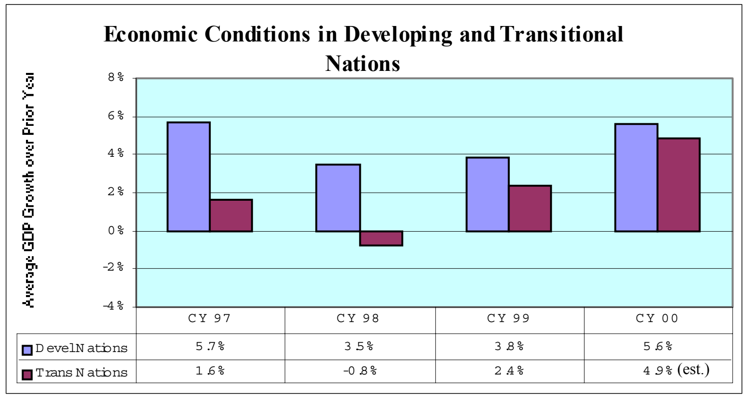
The **Bureau of Alcohol, Tobacco and Firearms (ATF)** is responsible for protecting the public by ensuring that the alcohol, tobacco, firearms and explosives industries meet safety and productidentity standards and keeping ineligible or prohibited persons from entering these industries. ATF does this through a number of programs designed to assure the integrity of the products, people and companies in the marketplace, encourage compliance with law and regulations through education, inspection and investigation, and inform the public when problems arise.

ATF has two performance measures for this objective. In FY 2000, ATF corrected 1,119 unsafe conditions (versus a target of 825 corrections) that were either reported from outside sources or were discovered through inspections. ATF also met its target of conducting 175 seminars for permit holders in the alcohol, tobacco, firearms and explosives industries.

Goal: Maintain U.S. Leadership on Global Economic Issues

Objective: Promote Economic Growth and Sound Policies in Developing and Transitional Economies

Treasury monitors and promotes growth in developing countries and nations transitioning from a government-controlled to a market-based economy. An economic growth indicator is the overall percent change in Gross Domestic Product (GDP) from the prior calendar year. In transitional economies, principally in Central and Eastern Europe, GDP growth is estimated at 4.9% in CY 2000--up from 2.4% in CY 1999. In developing economies of Latin America, Asia, Africa and the Middle East, estimated growth in CY 2000 is 5.6%--up from a 3.8% growth rate in CY 1999. The Asian economy has recovered from recent financial crises, but some growth factors are fading because of higher oil prices, less demand for high-tech goods, and global liquidity constraints. The economies of sub-Saharan Africa are growing, but this remains the poorest region in the world.



The **Under Secretary for International Affairs** works closely with these nations, international institutions, and other Federal agencies to promote sound economic programs and policies. Treasury has been influential in obtaining international cooperation to address various global problems such as AIDS and other infectious diseases, global warming, loss of biodiversity, money laundering and other financial crimes. Treasury has 40 resident advisors and 100 intermittent advisors in 40 countries to give on-site technical assistance and expert advice in tax, budget, banking and financial institutions, government debt issuance and management, and financial crimes enforcement.

A significant Treasury accomplishment in 2000 was securing a major U.S. commitment of $600 million for the most heavily indebted poor countries (HIPC) Trust Fund to reduce the debt owed to regional development banks by 32 HIPCs (the HIPC initiative). The U.S. also pledged to deliver another $320 million for relief of debt owed directly to the U.S by these countries. The debt burdens of these poor countries, particularly in Africa, often prevents them from making investments in education, health child immunizations, and poverty reduction. In FY 2000-2001, Treasury helped secure Congressional appropriations of $545 million for debt reduction and another $26 million for debt relief for developing countries that agree to conserve their tropical rain forests.

Objective: Strengthen International Financial Institutions that Promote Global Economic Stability and Support Developing and Transitional Economies

One means to achieve sustainable global economic growth and financial stability is through U.S. leadership in and support for International Financial Institutions (IFIs), namely the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs) such as the World Bank, which support developing and transitional economies. The U.S. is a major shareholder in the IFIs, but does not control or direct their operations.

The **Under Secretary for International Affairs** has led the push for IMF and MDB reform. At Treasury's urging, the IMF made considerable progress in implementing a major new reform initiative: a review of IMF lending mechanisms to focus on short-term lending for emergencies; more detailed financial disclosures by borrowers; and, use of internationally accepted standards for transparency of financial and monetary policy.

In 2000, the U.S. and its G-7 partners launched a new reform initiative to improve the way the MDBs do business and to redefine core thinking about development and assistance. As a result, poverty reduction is now a stated core mandate, and MDB lending priorities have shifted to investments in human and social capital. The MDBs are also paying more attention to private sector development. At Treasury's urging, the World Bank is implementing new energy and environmental strategies, and the Global Environment Facility is making reforms and operational changes.

In 1999, U.S. arrears, or unpaid commitments, to the MDBs were down to $335 million. The FY 2000 budget request would have further reduced arrears to $167 million; however, the amount appropriated in FY 2000 fell short of the request, bringing arrears back up to $451 million.

Objective: Monitor the Global Economy and Promote International Economic Leadership through Cooperation on Economic Policy

The objective was to achieve balanced and sustainable world economic growth, particularly in the major industrial economies of Europe and in Japan. **Treasury's Secretary and Under Secretary for International Affair**s play key leadership roles in promoting global economic cooperation as they meet regularly with the finance ministers of the "Group of Seven" industrialized nations (the G-7). These nations (Canada, France, Germany, Italy, Japan, U.K. and U.S.) work together to create a more secure, prosperous and democratic world though mutual trust, cooperation and assistance. To include more nations in this kind of cooperative body, a larger "Group of 20"nations (the G-20) was formed for the same purpose.

An important contribution to strengthening the international financial system is the Financial Stability Forum (FSF), which Treasury proposed and helped establish in 1999 to promote international financial stability through cooperation and information exchange. In 2000, three FSF working groups received G-7 and G-20 approval of their reports and recommendations for adoption of standards for risk management, disclosure practices among financial institutions, and improved oversight of creditor institutions.

One indicator of success has been the positive rate of growth in the past several years in Gross Domestic Product (GDP) of major U.S. trading partners (shown in the table below). The exception is Japan, which experienced a prolonged period of weak economic growth and serious financial system problems in the 1990s. Encouraged by Treasury and other agencies, Japan undertook financial sector reform and restructuring. In 2000, Japan's economy improved, and Japan showed an increase in GDP growth.

GDP Growth for Major US Trading Partners

Major U.S. Trading Partner	CY 1998 Performance	CY 1999 Performance	CY 2000 Performance
Canada	3.3%	4.5%	4.7% (est.)
European Union (Euro area)	2.7%	2.5%	3.5% (est.)
United Kingdom	2.6%	2.2%	3.1% (est.)
Mexico	4.9%	3.5%	6.5% (est.)
Japan	-2.5%	0.8%	1.4% (est.)
China	7.8%	7.1%	7.5% (est.)

Objective: Facilitate Legitimate Trade, Enhance Access to Foreign Markets, and Enforce Trade Agreements

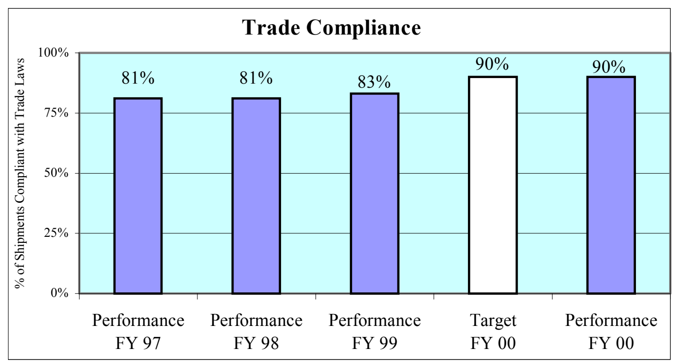
We are moving toward the U.S. international affairs strategic goals of opening world markets and expanding U.S. exports to $1.2 trillion early in the 21st century. In calendar year 2000, U.S. exports topped $1 trillion for the first time in history.

Treasury's **Under Secretary for International Affairs, Under Secretary for Enforcement, and the U.S. Customs Service** play important roles in developing U.S. trade policy -- negotiating and implementing provisions on financial services, investments, balance of payments, rules of origin, taxes and other customs matters.

An important Treasury accomplishment in 2000 was helping secure Congressional approval for Permanent Normal Trade Relations with China, thus giving impetus to China's efforts to become a member of the World Trade Organization (WTO). This was expected to happen in 2001 and to result in lowered trade barriers between China, the U.S. and other WTO members. Treasury also helped secure passage of the Africa Growth and Opportunity Act of 2000, which should help expand Africa's trade and participation in the global economy.

The U.S. Customs Service administers and enforces trade agreements to ensure that goods and persons entering and exiting the United States comply with U.S. trade laws and regulations.

Customs continued to work with industry partners and international trade organizations to refine efforts to move legitimate cargo more efficiently. Major emphasis was placed on program dealing with risk management, revising procedures, account management, and compliance assessment.



Customs' Risk Management Process integrates a variety of flexible, automated, and data-driven methods to identify and remedy proven and potential areas of non-compliance. Compliance Measurement, the base component of the Risk Management Process, provides Customs with an objective "picture" of import compliance by collecting a statistically-valid pool of data of overall imports and specifically-targeted industry sectors. Data is derived and compiled from disciplined, information-driven cargo examinations and document reviews.

Customs also continued to focus efforts on the Entry Revision Proposal (ERP). The ERP identified the need for major legislative changes to streamline and modernize Customs entry statutes and has been a primary initiative toward facilitating trade. The initiative has direct input from Customs external stakeholders.

Objective: Strengthen the Stability and Efficiency of Global Capital Markets and Promote a Sound Framework for International Investment

In the 1990s, numerous financial crises threatened global financial security. In response, the **Under Secretary for International Affairs** led a comprehensive effort to reform the international financial architecture to reduce vulnerability to new financial crises and develop the capacity to respond effectively to any future crises. In 1999, the G-7 nations adopted a Treasury proposal and inaugurated a Financial Stability Forum (FSF) to promote financial stability through information exchange and cooperation in the supervision of financial markets. In 2000, three FSF working groups (Highly Leveraged Institutions, Capital Flows, and Offshore Financial Centers) made important contributions to strengthening the international financial architecture when the G-7 and G-20 approved their recommendations on risk management, financial institution disclosure practices, and oversight of creditor institutions.

Corruption, money laundering, tax evasion, and other financial crimes could undermine the credibility of the global financial system. Treasury has taken the lead in integrating work on these issues by the Financial Stability Forum, the Financial Action Task Force, and the Organization for Economic Cooperation and Development. The G-7 agreed that measures could be imposed on countries identified as uncooperative in reforming their systems and correcting these problems.

The **Assistant Secretary for Tax Policy** develops policies on taxation of international income, negotiates tax treaties with other countries, and supports negotiations of investment treaties. In December 2000, the Office of Tax Policy released a major study on deferral of U.S. taxes on foreign source income. The study concluded that changes in current law might be necessary to increase parity between tax rates on U.S. and foreign income.

Other Treasury responsibilities involve international investment issues and negotiating investment treaties. Treasury serves as Chair of the Committee on Foreign Investment in the U.S. (CFIUS), a Government committee with the purpose of preserving the principles of an open U.S. investment policy while protecting U.S. national security.

Objective: Pursue Exchange Rate Policies to Promote Stable Financial Systems

The objective was to help assure global financial stability through a stable system of exchange rates and flexible but orderly exchange rate systems and to avoid major economic and financial disruptions caused by large and sustained misalignment of currency exchange markets. When a financial crisis has arisen, Treasury has worked with other countries and international organizations to stabilize currency exchange markets and resolve the crisis quickly.

The **Under Secretary for International Affairs** represents the U.S. internationally on monetary issues and plays a key role in charting the course in the evolution of the international financial system. Treasury has primary responsibility for U.S. foreign exchange operations through the Exchange Stabilization Fund (ESF), the assets of which enable Treasury to stabilize currency markets.

In 2000, Treasury closely monitored exchange rates and engaged officials in Turkey and Egypt on monetary and financial issues in their countries. Also in 2000, Ecuador and El Salvador decided to “dollarize” or use the U.S. dollar as their national currency. Treasury developed Administration policy on dollarization—namely that the U.S. would not alter its monetary or banking policy to support a dollarized country.

FINANCIAL MISSION AREA SUMMARY

Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances through collecting money due to the United States, making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of the Department's resources are devoted to collecting taxes and customs duties - Treasury collects approximately 95% of total Federal receipts.

The Internal Revenue Service is the primary tax collecting agent; the U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms also collect billions of dollars in revenue each year. The Financial Management Service oversees, accounts for, and reports on government collections and expenditures, and is responsible for collecting delinquent Federal debt government-wide. The Bureau of the Public Debt borrows what is necessary to meet the monetary needs of the Federal government at the lowest possible cost over the long-term. United States coins and currency are produced by the U.S. Mint and the Bureau of Engraving and, respectively.

Goal: Collect Revenue Due to the Federal Government

Objective: Improve and Simplify Tax Laws and Administrative Guidance, Consistent with Other Important Tax Policy Goals

Taxpayers desire simplification of the laws and regulations they follow to pay their taxes.

In its efforts to simplify, and improve taxation, the Treasury's **Office of Tax Policy,** in collaboration with the **Internal Revenue Service (IRS)**, annually identifies and publishes a list of tax guidance priorities to identify projects for completion each year. These projects are identified in response to newly enacted legislation, court opinions, changes in the market, changes in taxpayer behavior, and comments from taxpayers or their representatives. Over 400 items of tax guidance were issued in FY 2000.

A major accomplishment was a Treasury-led bipartisan effort to develop and enact legislation to repeal foreign sales corporations and revise the taxation of extraterritorial income. IRS made changes and revisions to improve and expand electronic filing, implement protections on certain penalty and interest provisions, make a difference in the lives of innocent spouses, and strengthen taxpayer rights in collection and audit situations. Treasury also continued actions to combat the proliferation of corporate tax shelters, protecting against unintended revenue loss and preserving the integrity of voluntary tax compliance.

Objective: Increase Compliance with Tax and Trade Laws

The purpose of this objective is increase voluntary filing, payment and reporting compliance by helping taxpayers understand and comply with America's tax revenue collection system. Compared with many other countries, U.S. taxpayers as a group are highly compliant with the Nation's tax code and trade laws. Total net revenue collected in trillions of dollars went from $1.746 in 1999 to $1.902 in 2000. IRS continues to work on quantifying the levels of voluntary compliance.

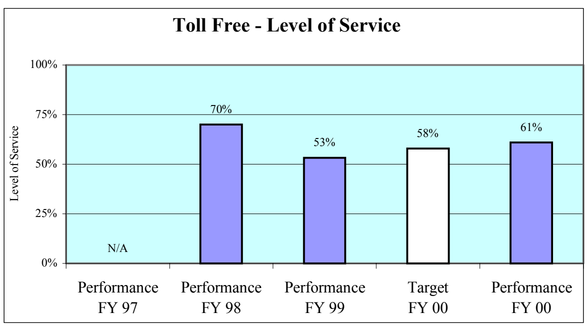
The **Internal Revenue Service's (IRS)** mission is to provide America's taxpayers with top quality service by helping them to understand and meet their tax responsibilities and by applying the tax laws with integrity and fairness to all.

The IRS's strategy to maximize voluntary tax law compliance is to emphasize customer service programs at each phase of the filing process. In FY 2000, this included improved telephone service to answer questions 24 hours a day, seven days a week; dedicated "Problem Solving Days" to provide face-to-face assistance to taxpayers; rewriting the most frequently used taxpayer notices to make them easier to understand and easier to complete; and expansion of electronic filing alternatives.

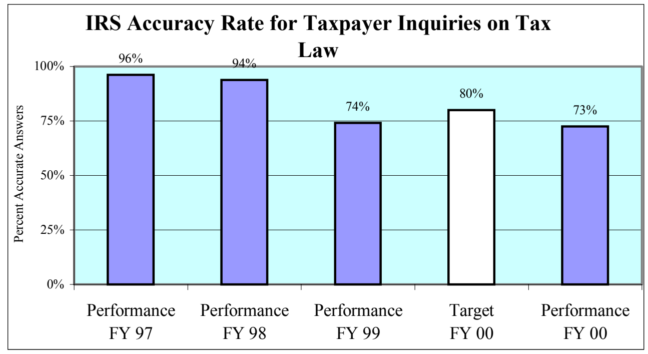
The total number of taxpayers who come into IRS offices to receive tax assistance or request tax forms declined from 10.1 million in FY 1998 to 9.7 million in FY 2000. This decrease can be attributed to a decrease of approximately 500,000 forms distributed at the walk-in sites as customers are securing their forms through some other avenue, possibly the IRS Internet website.

Several key FY 2000 performance measures related to this objective include:

- *Toll Free Level of Telephone Service* in answering calls by the appropriate assistor increased to 61% in FY 2000 and slightly exceeded the target. This was a rebound from a dip in FY 1999, but still below the FY 1998 high of 70%.



- *Tax Law Accuracy Rate for Taxpayer Inquiries* continues to decline. This measures the accuracy of IRS' answers to taxpayer questions on tax law issues as determined by subsequent review of answers provided. The score has declined from 96% in 1997 to 73% for 2000. In 2000 the quality review function was further centralized with more uniform standards and its functions expanded to cover more complex inquires. An analysis of the overall toll-free area shows this changed mix and increased complexity of calls as factors for declines in quality scores. Efforts to reverse this trend include channeling technical calls to specialized call centers, continued training, and scripts to use in providing correct answers to common questions.



- The quality of IRS examination and collection efforts was below targeted levels for FY 2000.

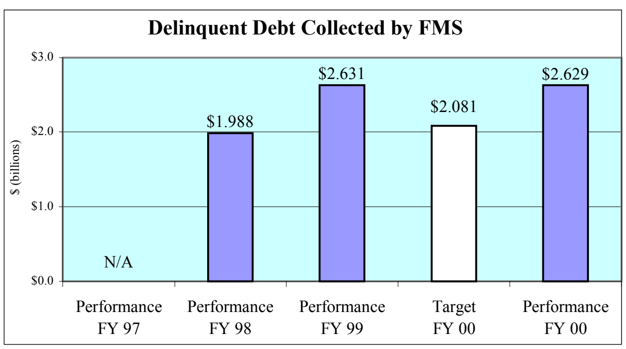
Field Examination Quality assessed by third party reviewers against established quality standards declined to 57% in FY 2000, below the target of 68% and prior year levels of 65%. The shortfall resulted, in part, from the IRS's inability to meet new quality standards mandated by the IRS Restructuring and Reform Act of 1998. Also, concerns regarding sampling methodology were addressed to ensure valid samples of cases reviewed, thus giving a truer indication of performance than in the past. Improvement in three areas -- Audit Scope, Audit Planning and Workpapers – may substantially improve the quality of future examination and collection efforts.

- Field Collection Quality declined from 86% to 83% in 2000. Collection's declining performance in the measure may be partially attributable to not having enough employees available to accomplish the work within established timeframes, which is a factor in quality scoring. Plans to reverse this trend include additional staffing and continued training.

In addition, during FY 2000, the IRS made significant progress in all aspects of their modernization effort. Of particular significance were the initial training and implementation of the many specific provisions of the IRS Restructuring and Reform Act of 1998. For example, the design and initial implementation of the new organizational structure, with all major elements of the new structure scheduled to be operational in FY 2001, and the business systems modernization program concluded its planning phase.

Objective: Improve Federal Non-Tax Delinquent Debt Collection

The Debt Collection Improvement Act (DCIA) of 1996 requires Federal agencies to refer delinquent (over 180 days old) non-tax debts to Treasury's **Financial Management Service (FMS)** for collection. FMS provides services through a network linking its own debt collection expertise and capabilities with those of FMS' financial centers, Federal program agencies' debt collection centers, private collection agencies, and the U.S. Department of Justice. The success of Treasury's debt collection programs depends on timely referrals of delinquent debts by program agencies; actual collections may depend on external economic and legislative variables beyond Treasury's control. Delinquent non-tax debt collections have increased from $1.99 billion in FY 1998 to $2.63 billion in both FY 1999 and FY 2000.



FMS collects delinquent debt primarily through two major programs: cross-servicing and the Treasury Offset Program. The Treasury Offset Program (TOP) enables FMS to match delinquent debtor files against Federal payment files. When a match occurs before an impending payment, the payment is intercepted and is offset, in whole or in part, up to the amount of the debt. TOP is used to collect Federal delinquent tax and non-tax debt, delinquent state income tax and child-support obligations.

Under cross-servicing, Federal Program Agencies (FPAs) transfer delinquent debt files to FMS. FMS then collects the debt using a variety of collection mechanisms, including skip tracing (i.e., locating debtors), demand letters, follow-up telephone calls, administrative offset, administrative wage garnishment, and private collection agencies.

FMS has worked closely with Federal agencies to identify eligible debts and facilitate referrals. During FY 2000, FMS' successful outreach efforts led to an increase of eligible debt referred from 71% in FY 1999 to 83% in FY 2000, which was 8% above the FY 2000 target level.

Goal: Manage the Federal Government's Accounts

Objective: Ensure All Federal Payments are Made Accurately and Timely

One of the most visible services of the Federal Government to the public is making Federal payments. Federal program agencies, such as the Social Security Administration or the Department of Veterans Affairs, are responsible for determining for their programs the correct amount and timing of payments, as well as the correct recipients. Federal program agencies certify their payments to Treasury's **Financial Management Service (FMS)**, which then disburses the payments. Making payments electronically (Electronic Funds Transfer [EFT]) is the key to FMS' strategy to increase payment accuracy and timeliness. EFT payments are increasing as a result of intensive, grass-roots campaigns to publicize the safety, security, and simplicity of electronic payments.

FMS is responsible for disbursing Federal payments. The percentage of Federal payments transmitted electronically has increased from 58 percent in FY 1997 to 70 percent in FY 2000, but did not achieve the FY 2000 target of 75 percent. FMS predicated its FY percentage targets on a waiver policy that was more restrictive than the one finally adopted by Treasury. As a result, more payment recipients elected to continue with check payments than was originally anticipated. Efforts by FMS to further increase the use of EFT include actively promoting low-cost Electronic Transfer Accounts among Federal benefit recipients who do not maintain a bank account and working through interagency forums to convert more vendor and miscellaneous payments to EFT.

In addition to EFT, FMS pursues several other strategies to improve the Government's payment processes:

- *Payment Consolidation.* By consolidating multiple invoices from the same vendor, FMS eliminated approximately 2.5 million payments in FY 2000. Additionally, the Payment Advice Internet Delivery system (PAID) provides payment-related information via the internet for 82 agencies and approximately 5,600 registered users.

- *Plastic Card Technologies*. To reduce the cash, checks, scrip, vouchers, and other manual payment mechanisms used on military bases, FMS works closely with the military services. Many military bases now use various smart card systems for payroll payment, merchant sales, and foreign exchange transactions. These smart card programs streamline the payment and accounting processes, and provide greater security.

- *Internet Credit Card.* The Internet credit card program replaces the point-of-sale technology with the personal computer and an Internet connection. In FY 2000, this technology performed transactions worth more than $34 million. This way, Federal agencies can meet their electronic commerce goals. The reduction of paper and simple modifications to accounting systems transform an agency's cash processes into electronic commerce.

- *E-Check.* The new electronic check ("e-check") pilot is an all-electronic payment mechanism modeled on the paper check. It is designed to reduce transaction processing costs, allow remittance data to be securely transmitted, and permit the transfer of funds over open networks. The e-check technology is based on a consortium of financial institutions, technology firms, and public institutions.

Objective: Ensure that the Government's Cash Management Minimizes Risk and Provides Immediate Flow and Balance Information

One of the most important functions performed by the Treasury Department is management of the Government's cash to ensure that funds are available on a daily basis to cover Federal payments. To accomplish this, Treasury must accurately monitor the Government's receipts and payments and correctly predict the Government's future daily cash requirements. Performing this cash flow management function with the most up-to-date and accurate information reduces taxpayer burden by ensuring that the cost of borrowing funds is minimized.

The **Office of the Fiscal Assistant Secretary** supervises the administration of the Government's fiscal affairs. The **Office of Cash and Debt Management** manages the government's daily cash position and produces the cash and debt forecasts used to determine the size and timing of the government's financing operations. The **Financial Management Service (FMS)** develops and manages Federal financial systems to move the Government's cash flow efficiently, effectively, and securely. It supports other Government agencies as the Government's primary disbursing agent, collection agent, accountant and reporter of financial information, and collector of delinquent Federal debt.

In FY 2000, 75% of the amount of all collections received was processed electronically. Approximately $1.5 trillion was collected through Treasury's Electronic Federal Tax Payment System, thus generating cash management benefits and cost savings to Treasury. FMS and the Internal Revenue Service launched a pilot project enabling taxpayers to enroll in the Electronic Federal Tax Payment System and to initiate payments through the Internet. FMS also met its goal of always publishing the *Daily Treasury Statement* on time. This statement reflects the cash transactions, holdings, loans, debts, etc., of the Government.

Objective: Provide Accurate and Timely Information on the Government's Financial Status and Support the Government-Wide Implementation of Accounting Standards

The public and private sector use Government-wide financial information for a variety of purposes, including monitoring the Government's financial status and establishing fiscal and monetary policies. Providing accurate and timely financial information is an ongoing challenge for all Federal agencies. One general indicator of success in this area is the number of the 24 major Chief Financial Officer (CFO) Act agencies that receive audit opinions on their financial statements indicating they are free of significant omissions or misstatements ("unqualified").* From FY 1997 through FY 1999, the number of CFO agencies receiving an unqualified opinion increased from 11 to 15. Continued improvement in annual financial statements is expected, however the number of unqualified opinions for FY 2000 was not available for this report.

Treasury's **Financial Management Service (FMS)**, the Government's primary accountant and reporter of financial information, works with Federal agencies to help them adopt uniform accounting and reporting standards and systems.

During FY 2000, FMS consistently published the *Daily Treasury Statement* on schedule, meeting its established performance target (of 100% of the time). This statement reflects the cash transactions, holdings, loans, debts, etc. of the Government. Major progress also was made in examining and rebuilding FMS' processes for collecting budget execution data Government-wide and reporting on the Government's budget surplus/deficit. The *Government-wide Accounting (GWA) Project* is re-examining FMS' existing business processes. This long-term project, which is expected to make fundamental changes to Government-wide accounting processes, will produce more timely, accurate, and reliable financial reports while, at the same time, reduce the reporting and reconciliation burden on program agencies.

* Note: The Chief Financial Officers (CFO) Act requires that the 24 largest executive branch agencies prepare financial statements comparable to those in the private sector. These statements are then audited by an independent audit organization.

Objective: Strengthen the Government's Financial Infrastructure to Improve the Program Management Across Government

The Treasury Department is the fiscal agent for the U.S. Government and is responsible for assisting agencies to ensure that accurate and timely financial information is available to program managers throughout the Government. The often exponential growth in the capability of information and communication technologies offers Treasury considerable opportunity to improve the financial systems underpinning its responsibilities. Treasury's **Financial Management Service (FMS)** plays a critical role in strengthening the Government's financial infrastructure. FMS works to continue to improve its systems so agencies can report their financial information to Treasury more easily, quickly and accurately.

In FY 2000, FMS made progress in:

Improving the integrity and quality of agencies' budget execution data and eliminating year-end reconciliation problems between FMS and the Office of Management and Budget by implementing the Federal Agencies Centralized Trial Balance System II (FACTS II). About 80% of all FY 2000 year-end budget execution data were received through the Facts II process, which reduced errors and increased timeliness. This accomplishment sets the stage for 100% reporting through FACTS II for year-end FY 2001 reporting.

- Replacing all components of the *Government On-Line Accounting Link System (GOALS)* through which agency accounting data is collected and disseminated. FMS is now converting agencies to GOALS II, which uses more modern technology including the Internet. Conversion to GOALS II is scheduled for completion in 2001.

Objective: Ensure the Effective Management and/or Investment of Funds in Treasury's Custody

While the debt held by the public is decreasing due to budget surpluses, debt held by government agencies under our Federal Investment Fund Program is increasing. Treasury holds and invests monies for government agencies that are authorized to invest in special non-marketable Treasury securities. The sources of the monies for investment are tax revenues, fees, and assessments collected for a specific purpose (such as Social Security taxes). Over time, these funds have experienced tremendous growth in their number and value. Currently, there are over 200 Investment Funds with balances in excess of $2.2 trillion. In FY 2000 alone, these Funds increased $247.26 billion, representing a 12.5% increase over FY 1999.

The **Bureau of the Public Debt's (BPD)** Federal Investment Fund Program offers securities investment services to Government agencies. More than 90% of these Investment Funds are managed by the other agencies, with Treasury executing investment instructions provided by these agencies. The Secretary of the Treasury, with administrative and accounting service support from BPD, has responsibility as Managing Trustee for several of the largest Investment Funds, including Social Security, Highway, and Unemployment, which hold over $1 trillion. In addition, during FY 2000 Treasury completed a comprehensive review of its investment fund responsibilities and is implementing several of the recommendations to strengthen its administration of the Investment Funds.

A key BPD performance measure supports this objective. Federal Program Agencies contact Treasury daily to request investments and redemptions for more than 200 trust and deposit funds that participate in the Federal Government Securities Investment Program. In FY 2000, all of these transactions were processed on the date requested by the agency, and 99.98% were processed accurately.

Goal/Objective: Cost-Effectively Finance the Federal Government's Operations

Despite budget surpluses, Treasury must still borrow. During FY 2000, Treasury issued close to $2 trillion of securities, most of which was done to replace securities that are maturing. This year, in addition to borrowing, Treasury reintroduced the buyback of outstanding Treasury securities for the first time in 70 years. During FY 2000, the Bureau of the Public Debt (BPD) conducted 13 buyback operations, repurchasing over $21 billion. Given the expectation of continuing surpluses, Treasury expects to conduct additional buyback operations, replace maturing debt with smaller amounts of new debt, conduct fewer auctions, and offer a smaller range of Treasury securities.

The **Office of the Assistant Secretary for Federal Finance** provides technical assistance and economic analyses on matters related to Treasury debt management policy, marketing of Treasury securities, and regulating the Government securities market. The office also analyzes current economic and securities market conditions and maintains data on allotments of Treasury securities in auctions and ownership of Treasury securities.

Treasury's **Office of the Fiscal Assistant Secretary** supervises the administration of the Government's fiscal affairs, including the administration of Treasury financing operations. One way that this office affects the cost efficiency of financing the Federal Government is by ensuring that the government always has sufficient funds to meet its obligations and that Treasury payments are made in an accurate and timely manner (through the Financial Management Service).

The **Bureau of the Public Debt (BPD)** is Treasury's primary bureau for conducting financing operations. Its mission is to borrow the money needed to operate the Federal Government and to account for the resulting debt. BPD accomplishes this through the issuing and servicing of a variety of securities (marketable, special purpose, and savings securities). During FY 2000, all auction results were announced within the target of one hour of the close of the auction.

Several key BPD performance measures support this objective:

- Savings bonds have been sold for more than 60 years. Nearly ninety-eight percent of customer service transactions were completed within four weeks of receipt of the customers' request. These transactions include providing requested forms, information, and assistance; processing account changes; and reissuing savings bonds to reflect new ownership or to replace bonds that have been lost or stolen. For the convenience of our customers, we complete transactions by mail, telephone, fax, and/or email. (Target: 90%).

- Ninety-nine percent of over-the-counter Saving Bonds were issued within three weeks (Target: 95%).

- There are approximately 800,000 *TreasuryDirect* investors who hold Treasury bills, notes and bonds. Ninety-seven percent of *TreasuryDirect* transactions were completed within 3 weeks of receipt during FY 2000 (Target: 90%).

- To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is important that Treasury's securities auctions be completed and the results announced as quickly as possible. During FY 2000, all auction results were announced within the target of one hour of the close of the auction.

Goal: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

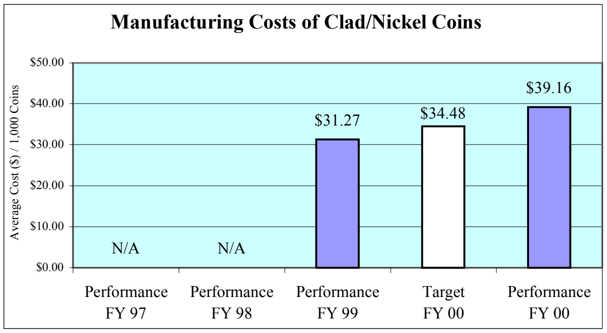
Objective: Increase the Productivity and Efficiency of Coin and Currency Manufacturing

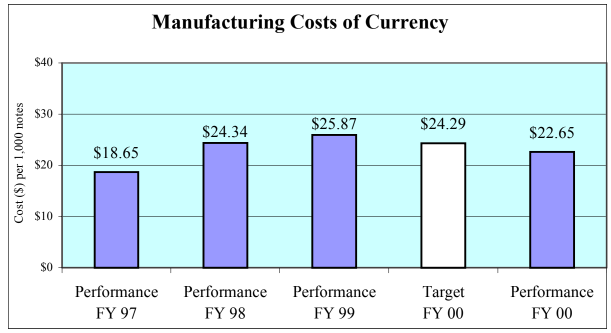
Treasury produces and supplies the Nation's coins and currency. In FY 1999 and FY 2000, growth in Federal Reserve Bank (FRB) order levels influenced production efficiencies, as increased orders allowed for maximum use of our facilities. The **U.S. Mint (Mint)** has made great advances in the production process (e.g. extending die life, automating coin transfers on the line, increasing line flexibility, etc.) and motivating its employees. Over the past two years, the **Bureau of Engraving and Printing (BEP)** implemented several employee suggestions that significantly improved ink mileage saving millions of dollars. Under the Bureau's employee suggestion program, a portion of the cost savings from employee suggestions is shared with the suggestor as an incentive to improve cost effectiveness.

The Mint produces the circulating coins necessary for the American economy to support commercial activities and maintains adequate inventory levels to meet Federal Reserve Bank requirements. It also manufactures numismatic and bullion coins, medals and other coin products for sale to collectors, investors and the general public.

During FY 2000, the Mint's 50 State Quarters and Sacagewea dollar coin programs were both successful, in terms of coins produced and shipped. The Mint shipped 6.2 billion quarters (compared with 3.5 billion in FY 1999), and slightly over one billion dollar coins (more than all the coins produced and shipped during the entire life of the Susan B. Anthony [SBA] dollar, and over thirty times the 33 million SBA dollars shipped in FY 1999).

The Mint's cost per 1,000 units of clad and nickel coinage was $39.16, which exceeded the goal of $34.48 by 14%. Actual results were affected by increased production of the higher value/cost denominations plus increased metals costs. In FY 2000, quarters and dollar coins made up 53% of clad and nickel shipments compared with 40% in FY 1999. Increase in quarter demand alone translates to an increase in metal costs of $79 million. Finally, compared to FY 1999, the Mint paid higher prices in FY 2000 for nickel (26%) and copper (6%), the main ingredients for the clad and nickel coinage.





The Mint also has goals for shipping 98% of commemorative coins within four weeks and 98% of recurring coin products within three weeks. The Mint shipped commemorative coins within the four weeks 87% of the time and recurring coin products within the three weeks 90% of the time. Demand in excess of sales projections for the Yellowstone, Leif Ericson and Library of Congress commemorative coins affected performance under this measure. The uniqueness of quarters in the 50 States Quarters program required an expanded version of the Mint's classic proof set. To include the 5 state quarters, the annual proof sets required revised manufacturing and packaging processes. As an example, the 1999 proof sets, shipped in early FY 2000, included nine coins compared to traditional five-coin proof sets of prior years. Similarly, the introduction of the new Sacagawea Golden Dollar presented challenges to the Mint's recurring coin programs. Year 2000 proof sets increased to 10 coins from the 9-coin set, and uncirculated sets have 20 coins instead of 18 coins. Additionally, delivery of the year 2000 silver proof sets was delayed until passage of legislation to include the Golden Dollar.

BEP produces U.S. currency, U.S. postage stamps, and many other security documents issued by the Federal Government. The cost of manufacturing currency notes in FY 2000 was $22.65 per thousand notes, well below the standard of $24.29. Currency manufacturing costs at BEP were below standard due to lower than anticipated spoilage, and improvement in ink mileage due to the implementation of several employee suggestions.

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was $1.46 per thousand stamps, eight percent below the standard cost of $1.59 per thousand stamps. This was the result of reduced spoilage and a decrease in labor costs due to adjustments in staffing in the postage production areas.

Objective: Continue to Explore Mechanisms for Maintaining the Integrity of U.S. Coin and Currency

Maintaining the security and integrity of U.S. coin and currency is essential to the stability of both the domestic and global economies. Both the relatively stable purchasing power of the U.S. dollar and its worldwide acceptance increase the importance of maintaining its security and integrity. The recent advances in the technology available to counterfeiters require that counterfeit deterrence efforts continue as one of Treasury's priorities. The amount of counterfeit currency in circulation has been relatively stable over the past four fiscal years

The **Bureau of Engraving and Printing (BEP)** works with the Advanced Counterfeit Deterrence (ACD) Steering Committee (which includes the U.S. Secret Service, Treasury policy officials, and the Federal Reserve) to monitor counterfeiting activities and to develop appropriate strategies to avert counterfeiting. BEP works with the public and private sectors to explore technologies in the rapidly developing field of counterfeit deterrence. In conjunction with the ACD Steering Committee, BEP is continuing to develop and test additional advanced counterfeit deterrent features for incorporation into the next generation (NexGen) currency design.

In the area of currency security and accountability, BEP exceeded its FY 2000 performance goal. The actual discrepancy rate on currency shipments was 1.2 notes for every billion notes shipped, well below the target rate of 10 notes per billion shipped, and a significant improvement over FY 1998 (19.2 notes/billion) and FY 1999 (9.2 notes/billion) levels. In addition, the release of the redesigned $5 and $10 notes in FY 2000 marked the introduction of the final notes in the first new currency design series in over 70 years. All of the redesigned notes incorporate advanced counterfeit deterrent features to thwart technological advances available to counterfeiters and maintain the integrity of the Nation's currency. No design changes are planned for $1 or $2 notes.

The **U.S. Mint** safeguards the Government's stock of gold and silver bullion, coins, and coinage metals held at Fort Knox, Kentucky, and other locations. In FY 2000, the Mint had no measurable losses per billion dollars of reserve value.

LAW ENFORCEMENT MISSION AREA SUMMARY

Mission: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America

Treasury's effort in the law enforcement area represents a significant amount of the total Federal Government's law enforcement activities. The Department helps foster a safer Nation by protecting our borders; preventing drug smuggling; protecting the President, Vice President, and visiting foreign dignitaries; combating violent crime; suppressing counterfeiting; fighting money laundering; preventing financial crimes against the currency of the United States; and training the vast majority of Federal law enforcement personnel.

The mission is supported by the United States Customs Service, Enforcement Programs, the Bureau of Alcohol, Tobacco, and Firearms, the U.S. Secret Service, Financial Crimes Enforcement Network, the Criminal Investigation Division of the Internal Revenue Service, the Federal Law Enforcement Training Center, and the Treasury Forfeiture Fund.

Goal: Combat Money Laundering and Other Financial Crimes

Objective: Dismantle Domestic and International Money Laundering Networks

Money laundering is the act of disguising the illicit nature of illegal proceeds by introducing them into legitimate commerce and finance. The illicit proceeds provide the fuel for drug dealers, terrorists, arms dealers, and other criminals to operate and expand their enterprises. While no precise numbers exist on the extent of money laundering, it is estimated that a minimum of $100 billion is laundered annually in the U.S. In March, 2000, Treasury published the second in a series of five annual National Money Laundering Strategy (NMLS) reports called for by the Money Laundering and Financial Crimes Strategy Act of 1998. There are over 60 action items to help law enforcement and regulatory agencies in the fight against financial crimes, including money laundering.

Several Treasury bureaus cooperate in the fight against money laundering:

- The **Financial Crimes Enforcement Network (FinCEN)** supports law enforcement investigative efforts and fosters interagency and global cooperation against domestic and international financial crimes, and provides U.S. policy makers with strategic analyses of domestic and worldwide money laundering developments, trends, and patterns.

  During FY 2000, FinCEN supported the NMLS by providing assistance in setting up the first four High Intensity Financial Crime Areas (HIFCAs), issuing a final regulation which extends suspicious activity reporting requirements to money transmitter, travelers check and money order segments of financial services industry, issuing a contract for the development of a methodology to estimate the magnitude of money laundering, and in publishing a comprehensive survey of new electronic technologies.

  FinCEN continues to provide analytical case support to law enforcement, providing over 6,000 reports on over 30,000 subjects in FY 2000. FinCEN also provides specially tailored forms of assistance that permit other agencies' staff to have direct access to FinCEN's resources. Through these programs, FinCEN supported 5,000 Gateway cases and expanded opportunities to network investigative efforts by 34 percent in FY 2000. FinCEN also continues to provide strategic analyses and feedback to its customers. In FY 2000, FinCEN issued two reviews to provide feedback to law enforcement and regulated industries on the utility of filed Suspicious Activity Reports.

  Finally, FinCEN continued to support the expansion of countries or jurisdictions having financial investigative units (FIUs) that meet the standards of the Egmont Group. In FY 2000, the number of Egmont FIUs increased from 48 to 53. FinCEN also issued advisories against 15 countries/Jurisdictions to alert our domestic financial/banking industries of potential suspicious activity stemming from certain types of transactions.

- The **U.S. Customs Service** works to strengthen domestic and international efforts to disrupt the flow of illegal money derived from global criminal activity. It does this by working closely with the business community and other law enforcement agencies to develop intelligence and investigative leads, and once developed, employs undercover operations to identify illegal activity that is co-mingled with legal, or apparently legal, activity.

  As a result of Customs efforts, a total of $204.1 million in money instruments were seized. This was below the FY 2000 goal of $336.6 million. The primary reason for the shortfall was the shift in outbound cash smuggling methods used by criminal organizations, partially due to the success of Operation Casablanca and other high profile money laundering operations.

- The **Internal Revenue Service's (IRS)** criminal investigation function is responsible for investigating money laundering and currency-reporting crimes under statutory authority found in Titles 18 and 31 of the United States Code. This includes investigative jurisdiction over reports required under the Bank Secrecy Act. In addition, the IRS has investigative jurisdiction for money laundering crimes involving banks and other financial institutions.

- The **U.S. Secret Service's** investigative program deals with electronic money laundering. The Service is involved with the evolution of E-commerce and its implications for money laundering.

  - The **Executive Office of Asset Forfeiture** provides the resources to manage an effective asset seizure and forfeiture program. Managing the program includes managing the cost of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting, and disposing of property. Asset forfeiture is used by Federal law enforcement to punish and deter criminal activity.

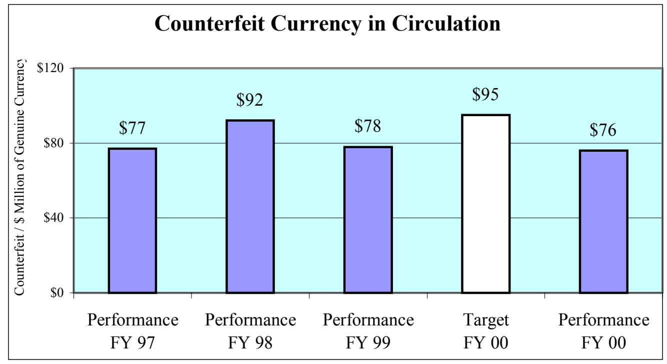
During FY 2000, on average equitable sharing payments were made in 297 days (97 days longer than the target) and number of days elapsing between forfeiture of real property and final disposal averaged 337 days (28 days shorter than the target).

Objective: Reduce Counterfeiting and Other Criminal Threats to Our Financial System

Counterfeiting, electronic device schemes, and other financial crimes have cost consumers, financial institutions, and governments billions of dollars. The level of counterfeit currency, which is estimated from investigations performed by the U.S. Secret Service, the Secret Service Internet Counterfeit Note Search site, and counterfeit dollars recovered by the U.S. banking system, has been relatively constant over the past several years. Recent advances in technology have changed the nature of financial transactions from paper currency and coins to today's use of electronic payment systems.

The **U.S. Secret Service** is responsible for conducting investigations of criminal activities when our Nation's financial systems are compromised and the economy of the United States is affected. The Secret Service provides a comprehensive investigative program and proactive approach to criminal investigations of significant economic and community impact under its responsible jurisdiction, such as: investigating counterfeiting of currency and other securities; financial institution fraud; access device fraud; computer fraud; fictitious financial instruments; and protecting the integrity of our Nation's financial infrastructure.

In FY 2000, $39.7 million in counterfeit notes were passed domestically, which is 12% less than the target level. In addition, the Secret Service successfully closed 12,089 counterfeit cases, resulting in 3,958 arrests, and 578 counterfeit plant suppressions.



The Secret Service continues to stress its foreign liaison and aggressive law enforcement efforts in areas with significant counterfeit and financial crime activity. Forging partnerships with law enforcement agencies in foreign countries has aided agents of the Secret Service in seizures of counterfeit U.S. currency prior to it reaching circulation (in the amount of $191 million including the suppression of 27 counterfeit plant operations) in foreign countries along with many significant successful investigations in the financial crimes arena.

Goal: Protect Our Nation's Borders and Major International Transportation Terminals from Traffickers and Smugglers of Illicit Drugs

Objective: Deny the smuggling of illicit drugs at land borders, airports, and seaports

The use of illicit drugs costs the United States annually over $11 billion dollars in health care and over $77 billion in lost productivity. Although drug seizures have continued at high levels over the past few years, data on the amount of illegal drugs actually entering the United States remains unknown. However, the estimated percentage of the population using drugs has remained relatively stable during the 1990s.

The **U.S. Customs Service** is responsible for protecting the U.S. borders from illicit drugs entering the country and meets this challenge by integrating new technologies with conventional investigative techniques. This includes a coordinated approach through intelligence, investigations and interdiction as a means for enhancing interdiction activities.

Several key performance measures are used to gauge success in preventing illicit drugs from entering the country. In FY 2000, Customs increased the amount of heroin seized (2,555 pounds versus a target of 1,900), but did not meet its goals in the amount of cocaine seized (150,036 pounds versus a target of 172,000 pounds) and marijuana (1,291,487 pounds versus a target of 1,300,000). The short-fall in the amount seized can be attributed to sophisticated smuggling techniques and ongoing changes in methods of concealment.

Other key performance measures related to this objective are targeting efficiency for passenger vehicles, the compliance rate for air travel, and the cycle time for air passengers. In FY 2000, the Customs Service exceeded its targets for targeting efficiency for passenger vehicles (11.1 percent versus a target of 10.5 percent) and compliance rate for air travel (98.4 percent versus a target of 97.7 percent). For its measure of the maximum time it takes for 95 percent of air passengers to clear Customs, from checked luggage retrieval to exit, Customs achieved it target of five minutes.

Another development in FY 2000 was the sharp rise in the seizure of other drugs. The seizure of methamphetamine, by weight, increased by 20.5% over FY 1999 levels. The epidemic rise in the use of the drug "ecstasy" has resulted in tripling the number of dosage units seized to more than 9.3 million units in FY 2000.

Objective: Support All Aspects of the National Drug Control Strategy

A key drug strategy is to dismantle illegal drug smuggling organizations. By providing unique investigative expertise to disrupt these organizations, Treasury impacts the availability of illegal drugs in the United States.

The **Internal Revenue Service - Criminal Investigation Division (IRS-CID)**, the **U.S. Customs Service (Customs)**, and the **Bureau of Alcohol, Tobacco and Firearms (ATF)** have participated in the Organized Crime Drug Enforcement Task Force (OCDETF)/ Interagency Crime and Drug Enforcement (ICDE) program. This is the only crosscutting Federal drug program that focuses attention and resources on disrupting and dismantling major drug trafficking organizations. In addition, the **Office of Foreign Assets Control** within the Office of the Under Secretary for Enforcement, administers economic sanctions against specific narcotics trafficking organizations.

Primarily through Treasury and the Department of Justice, OCDETF/ICDE provides the framework for Federal, state, and local law enforcement, empowering agencies to work together. Each agency utilizes its unique expertise to target well-established and complex organizations engaged in illegal narcotics trafficking, thereby disrupting the organization.

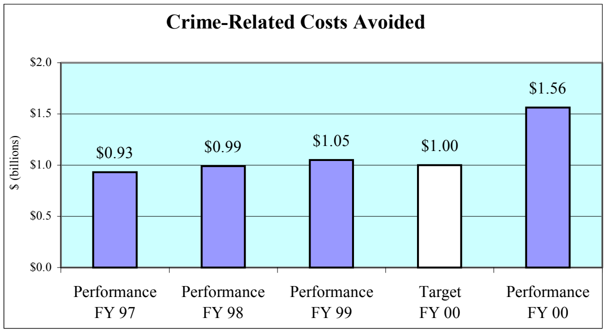
Goal: Reduce Violent Crime and the Threat of Terrorism

Objective: Deny Criminals Access to Firearms and Reduce the Risk of Violent Crime in Our Communities

The purpose of this objective was to make America safe from violent crime. In recent years, the rate of violence crime has steadily declined nationwide. Between FY 1995 and FY 1999, crimes such as homicides, robberies, rapes and aggravated assaults have declined by 31 percent. In addition, the number of crimes committed with a firearm has declined by 33 percent. Through the Brady Act, approximately 100,000 illegal gun sales were prevented since November 1998.

The **Bureau of Alcohol, Tobacco and Firearms (ATF)** has responsibility for this objective and works to reduce violent crime by imprisoning violent offenders, reducing the criminal misuse of firearms, explosives and fire, and through partnerships, increasing community outreach efforts.

Several key performance measures support this objective. As a result of ATF's efforts, $1.56 billion in crime-related costs were avoided in FY 2000 (56% greater than the target level).



Requests for gun traces were below expected levels (209,369 vs. target of 225,000). The short fall was due to a less than expected increase in State and local participation in comprehensive gun tracing and the declining rate of firearms crime in the United States. However, the average response time for ATF to respond to trace requests was better than expected (10.2 days v. target of 11.5 days).

During FY 2000, ATF introduced FFL eZ Check, a new online Federal Firearm Licensee authenticator web site call. FFL eZ Check supports members of the firearms industry to ensure that no licenses are used fraudulently by individuals who alter copies of licenses to illegally acquire and supply firearms to criminals and youth.

Objective: Strengthen the Capability to Fight Terrorist Threats to the U.S.

The number of terrorist incidents has declined since the early 1990s, but the number of documented instances in which violent acts by known or suspected terrorist groups or individuals were successfully interdicted through investigative activity has grown, especially in recent years.

Treasury's law enforcement bureaus have various programs that support this strategic objective.

- The **U.S. Customs Service** provides security at U.S. borders directed at: 1) preventing the smuggling of Weapons of Mass Destruction (WMD - nuclear, radiological, chemical, and biological material), arms, and other instruments of terror into the U.S.; 2) preventing international terrorists from obtaining WMD materials and technology, arms, funds, and other support from sources in the U.S.; and 3) supporting designated National Special Security Events with aviation, marine, and other enforcement resources.

- The **Bureau of Alcohol, Tobacco and Firearms (ATF)** provides substantive expertise and leadership for terrorist incidents involving bombings or arson, through its National Response Teams, the Canine Explosives Detection Program and its forensic science laboratories.

- The **U.S. Secret Service** provides expertise in the areas of identifying suspected or known terrorists and in identifying and neutralizing chemical and/or biological incidents. The Service plays a lead role in design, planning, and implementation of security operations at designated National Special Security Events. In that role, the Service provides the overall public safety coordination required to protect the event, its participants, and attendees from potential threats.

- The **Office of Foreign Assets Control** within the Office of the Under Secretary for Enforcement, administers economic sanctions against specific terrorist organizations and individuals.

- The **Federal Law Enforcement Training Center** provides state-of-the-art training to address various terrorist threats.

- The **Financial Crimes Enforcement Network** continues to assist Federal investigators to uncover information concerning suspected terrorists (either domestic or foreign) and their related financial activities. This includes support for counter terrorism investigations of weapons violations, bombings and arson.

Objective: Safeguard the Public from Arson and Explosive Incidents

In the 5-year period from 1994 to 1998 incendiary and or suspicious fires claimed over 2,700 lives and caused approximately $7 billion worth of damage. Arson is a difficult crime to solve, having a 5-year average clearance rate of 18.2%. Explosive incidents continue to be a serious threat to the public. Improvised explosives devices continue to kill and injure public safety officers, bomb technicians, and citizens.

The **Bureau of Alcohol, Tobacco and Firearms (ATF)** supports law enforcement and fire officials throughout the Nation with their investigations of explosive incidents and fires of suspicious origin. In the 5-year period 1995 to 1999, ATF investigated or assisted in the investigation of approximately 6,000 fire incidents.

In FY 2000, ATF completed the construction of a state-of-the-art training facility in Front Royal, Virginia, for accelerant and explosives detection canines for state, local, and international law enforcement. ATF also completed the development of and disseminated the InterFIRE training CD-ROM, a computerized virtual reality training tool for fire investigators at every level. This training CD is complemented by the InterFIRE website, which provides for a continuously updated resource for in depth information on fire investigation methodologies, training, and research.

Goal/Objective: Protect Our Nation's Leaders and Visiting Dignitaries

Incidents over the past few years such as the Oklahoma City bombing, American Embassy bombings, and the most recent attack on the USS Cole in Yemen, demonstrate the ongoing terrorist activity against U. S. interests in this country and throughout the world. The protective threat facing the **U.S. Secret Service** has broadened to include groups operating outside of their own countries. The low cost and diffusion of advanced technology and the proliferation of weapons of mass destruction (WMD) have further increased the dangers with which the Service must contend.

The U.S. Secret Service is responsible for the protection of the President of the United States, the President-elect, the Vice President or other officers next in line of succession to the Office of the President, the Vice President-elect, and members of their immediate families; of the person of a visiting head-of-state/Government and accompanying spouse, and at the discretion of the President, other distinguished foreign visitors to the United States, and official representatives of the United States performing special missions abroad; of former Presidents, their spouse and minor children, unless such protection is declined.

Travel of Secret Service protectees was unprecedented during FY 2000, and put considerable demands on Secret Service resources. The Secret Service measures protectee travel activity in terms of travel stops. A stop is considered a city or other definable sub-division visited by a protectee. During FY 2000, the Secret service provided physical protection at 7,358 travel stops, a 29 percent increase over FY 1999 and 43 percent since FY 1998. The 7,358 travel stops represents an all-time high in protection workload. The 7,358 travel stops also represents an exhaustive effort by the entire organization in terms of commitment to the achievement of the organization's ultimate protection goal of "Protectee Arrives and Departs Safely" 100 percent of the time.

FY 2000 was an extremely active year for the Secret Service protection program due to the Campaign 2000 Presidential election, to include the Republican and Democratic conventions, World Economic Conference, United Nation's General Assembly and other designated "National Special Security Events".

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Goal: Provide High-Quality Training for Law Enforcement Personnel

Objective: Enhance Basic, Advanced, and in-Service Training programs to Meet Changing Needs and Increasing Demands

The increased sophistication of computer technology and the globalization of the economy have created new challenges in the areas of financial fraud, money laundering, and other illegal activity. In addition, while being called upon to address a wide variety of social problems, law enforcement agencies are being held to heightened levels of scrutiny and accountability.

The **Federal Law Enforcement Training Center (FLETC)** serves as the Federal Government's leader in providing law enforcement training. FLETC accomplishes its mission by utilizing law enforcement and training experts; providing facilities, support services, and technical assistance; conducting law enforcement research and development; and sharing law enforcement technology.

FLETC measures its performance by surveying its students to obtain their views on the overall quality of training received. In FY 2000, the FLETC achieved a score of 99 percent on its Student Quality of Training survey, which significantly exceeded its target of 80 percent. Furthermore, FLETC achieved its goal of meeting 100 percent of the training requests received from participating agencies. FLETC accomplished this while keep training costs below its target level of $149 per basic student-week of training ($146).

In addition to meeting its' federal law enforcement training responsibilities, FLETC trained 3,383 state and local law enforcement officers and 323 international officers. FLETC also developed and or/significantly revised approximately ten Center Advanced training programs and assisted the participating agencies with the development of more than 15 agency-specific basic and/or agency advanced training programs.

Objective: Develop and Operate State-of-the-Art Facilities and Systems Responsive to Interagency Training Needs

Since 1970, the number of Federal agencies who train at the **Federal Law Enforcement Training Center (FLETC)** has grown from 18 to 74. In the next few years, the number of law enforcement officers requiring training is expected to increase due to Administration and Congressional initiatives to curb crime, especially in the areas of immigration, border security, drug control and interdiction, anti/counter-terrorism, and firearms enforcement.

In order to ensure that FLETC facilities are state-of-the-art and meet the needs of its customers, the FLETC conducts a Student Quality of Services survey. In FY 2000, 99 percent of the students surveyed rated FLETC's services as satisfactory or better, compared with a target of 80 percent.

Other accomplishments in FY 2000 included the introduction of four new indoor/outdoor firing ranges at the Glynco, Georgia facility and the completion of several new facilities at the Artesia, New Mexico training center. During the past year, a formal distributed learning implementation strategy was drafted and approved, and the FLETC began developing the distributed learning architecture blueprint to design the "Virtual FLETC" infrastructure.

MANAGEMENT MISSION AREA SUMMARY

Mission: Continue to Build a Strong Institution

Treasury's missions include diverse and critical responsibilities in the programmatic areas of economics, finance, and law enforcement. This fourth mission area recognizes the need for strong and efficient management processes and administrative support to accomplish our program missions, and includes Department-wide goals and objectives to strengthen our human resources, information technology, financial and asset management, procurement, and equal opportunity programs. In addition, it includes Department-wide initiatives in the areas of customer and employee satisfaction.

The **Assistant Secretary for Management and Chief Financial Officer** works through various Deputy Assistant Secretaries to achieve these goals and objectives.

Goal: Support the Achievement of Business Results

- **Objective: Improve Capacity to Recruit, Develop, and Retain High-Caliber Employees.** Among other accomplishments, Treasury used a variety of recruitment tools to attract high-quality employees, including private sector expertise in marketing, advertising, and search firms, and Internet recruiting. To develop Treasury leaders, Treasury instituted a customized training course for executive-level employees to fine-tune and reinforce leadership competencies. And, Treasury continued to examine ways to mitigate disparities between its compensation/benefits programs and those of the private sector.

- **Objective: Foster an Environment of Equal Opportunity.** During FY 2000, Treasury worked on several initiatives to strengthen the Treasury Equal Opportunity Program and to enhance efforts related to diversity, civil rights programs, and discrimination complaints. Among these efforts, a Secretary's Award for Diversity was established to recognize successes in increasing and managing diversity; a recruitment plan for individuals with disabilities was developed; and, the overall case closure rate on discrimination complaints increased by 20% over FY 1999 (at 525 final agency decisions).

- **Objective: Ensure Strong Financial Management of Treasury Accounts.** The Department continued to improve quality and timeliness of the Department's financial data, reducing the number of material weaknesses, and maintaining a qualified audit opinion on its FY 1999 financial statements (and eliminating one of two items causing the qualified opinion). The Department also continued the implementation of the Financial Analysis and Reporting System (FARS) to produce its FY 2000 Financial Statements, worked with the bureaus to improve the quality and timeliness of their financial data, both proprietary and budgetary, continued its efforts to standardize key financial data throughout the Department, and continued to make progress in improving bureau financial management systems.

- **Objective: Make Wise Capital Investments and Effectively Manage Treasury Assets.** Treasury's capital investment portfolio for FY 2000 consisted of over 150 major projects with an estimated value of $4.4 billion. Treasury's Capital Investment Review Board (CIRB) reviews, approves, and monitors the Department's major information technology and non-information technology capital projects. During FY 2000, the CIRB approved nine capital investments (three IT and six non-IT).

- **Objective: Procure Quality Goods and Services at a Fair and Reasonable Price and in a Timely Manner.** Competition in contracting is one key area of emphasis of Treasury's procurement processes; over the previous five years, Treasury has averaged a competition rate of near 88% (94% in FY 2000), well above the Government's average of 64%. Among other accomplishments, Treasury ensured that over 80% of its procurement personnel were certified under the Clinger-Cohen Act requirements for training for procurement professionals (exceeding the target of 75%). Treasury also worked to increase the amount of cost avoidance obtained through competition and/or negotiation of Treasury contracts.

- **Objective: Ensure Continuity of Treasury Operations.** During FY 2000, Treasury succeeded in its Y2K conversion efforts; developed Continuity of Operations (COOP) Plans for all Departmental Offices organizations and cyber systems; and, identified cyber and non-cyber Critical Infrastructure Assets in support of Presidential Decision Directive 63. It also undertook a number of valuable security assessments to improve the Department's overall security posture, and, strengthened Electronic Data Processing (EDP) general controls, most notably at the Internal Revenue Service, Customs and Financial Management Services. Treasury also participated in the development of the Federal CIO Council Information Security Assessment Framework (currently pending signature at OMB); revised the Treasury Security Manual regarding information systems security compliance; and, developed an information technology security architecture, which will provide a blueprint for Department-wide guidance.

- **Objective: Strengthen Treasury's Ability to Ensure Proper and Effective Oversight of Bureau Operations.** Effective oversight of Treasury bureau programs and operations is key to the effective management of Treasury's resources and prudent stewardship. From a Treasury-wide standpoint, one indicator of effectiveness is the extent to which its bureaus are meeting their performance targets. The trend in this area has been generally positive, with bureaus meeting or exceeding two-thirds of their 350 FY 2000 performance targets, verses 47% in FY 1999.

Several offices contribute to the accomplishment of this objective:

- The **Under Secretaries for Enforcement and Domestic Finance** provide direction and oversight of the enforcement and fiscal bureaus, respectively.

- The **Office of the Inspector General** (OIG) conducts audits and investigations related to the Department's (except for Internal Revenue Service) programs and operations. During FY 2000, OIG exceeded their target of $46 M for the amount of potential dollar savings identified from their recommendations, by almost $15 M (at $61M). For their investigations functions, OIG met their target of 75% of their investigations completed within 12 months, but fell short of their target of $350,000 in investigative monetary benefits (actual was $242,525). This shortfall was due to the fact that settlement agreements were not concluded for some investigations. In addition, negotiations between U.S. Attorneys' offices and the subjects involved are still pending. The OIG also received 684 Hotline allegations and initiated 156 investigations.

- The **Treasury Inspector General for Tax Administration** (TIGTA) conducts audits and investigations related to the Internal Revenue Service's activities. TIGTA issued 162 final audit reports related to the IRS. They exceeded their target of $102 million in potential monetary benefits resulting from corrective actions to audit recommendations by over $15 million (at $117.1 million). As a result of their audits, tax administration was improved for 11.3 million taxpayers, or 1.1 million more than their FY 2000 target. And in their investigations function, TIGTA referred 85% of their investigations to the U.S. Attorney, state, or local authorities for prosecution within one year of case initiation, exceeding their target of 80%.

Goal/Objective: Improve Customer Satisfaction

Several bureaus made progress in measuring customer satisfaction of its products and services:

- **Internal Revenue Service (IRS). "**Top Quality Service" to each Taxpayer was one of the IRS's Strategic Goals in FY 2000.

Customer surveys were continued in FY 2000, with results showing modest improvement in customer satisfaction in most areas addressed. The highest ratings were in the taxpayer assistance functions, while sensitive functions such as collection and examination also showed improvement.

Results for some specific IRS performance measures for Customer Satisfaction:

Customer Satisfaction Business Area	Description	FY 1999 Performance	FY 2000 Target	FY 2000 Performance
Toll Free	Customers' overall level of satisfaction with the services provided by the IRS Toll-Free program (max score of 4)	3.5	3.6	3.5
Walk-In	Customers' overall level of satisfaction with the services provided by the IRS Walk-In program (max score of 7)	6.4	6.5	6.5
Field and Office Examination	Level of satisfaction customers receive from interactions with IRS Field and Office Examination (max score of 7)	4.1	4.4	4.4
Field Collection	Customers' overall level of satisfaction with the way their case was handled by the IRS Field Collection program. (max score of 7)	3.9	3.9	4.6

- **Federal Law Enforcement Training Center (FLETC).** The FLETC continued to improve Customer Satisfaction with regard to the delivery of quality training in state-of-the-art facilities. The FLETC conducted continuous review and updates of training programs to ensure that the law enforcement officers receive training that keeps pace with the changing criminal and law enforcement environment.

- **Treasury Inspector General for Tax Administration (TIGTA).** In June 2000, TIGTA issued a customer satisfaction survey to its IRS customers. TIGTA's target was to set a baseline for this first year; they attained a 45% response rate with 62% of the respondents providing favorable feedback regarding TIGTA's products and services. Action plans were developed to address the specific concerns raised by their customers, and the survey results were shared with all TIGTA employees so they are cognizant of their customers' concerns as they conduct day-to-day activities.

- The **Bureau of Alcohol, Tobacco and Firearms (ATF).** During FY 2000, ATF began working with the University of Michigan to conduct an initial customer satisfaction survey for one industry segment (proprietors of wineries, distilled spirits' plants, breweries, and importers of alcohol beverages). This work will continue into FY 2001, and may be expanded to other customer segments.

Goal/Objective: Improve Employee Satisfaction

Several Treasury bureaus made efforts to gauge employee satisfaction during FY 2000:

- **Internal Revenue Service (IRS).** In FY 2000, over 81,000 employees voiced their opinions through "Survey 2000," with overall satisfaction results at the IRS showing a 4% increase over both the established target (55%) and FY 1999 levels. "Survey 2000" results showed many areas with significant gains of 5% or more, including "employee pride" (up 6% from 1999), and the "overall job satisfaction" of employees, which reversed its downward trend with an increase of 5% over last year.

- **Treasury Inspector General for Tax Administration (TIGTA).** TIGTA issued an employee satisfaction survey employees. TIGTA's target was to set a baseline for this first year; they attained a 58% response rate with 74% of the respondents providing overall positive feedback about their work experience in TIGTA. The detailed survey results are being reviewed by TIGTA's functional executives and action plans will be developed where warranted. Additionally, the results of the surveys have been shared with all TIGTA employees.

- **Bureau of Engraving and Printing (BEP).** In FY 2000, BEP contracted to conduct an agency improvement survey at the Bureau's Washington and Fort Worth facilities, and more than two-thirds of their employees participate. After the survey results were analyzed, focus groups were convened to obtain more detailed information about employee concerns. The results are being used to make recommendations for improvement, with the survey contractor working to prepare an action plan for executive review. In addition, a baseline will be set from which to gauge future survey results.

- **Federal Law Enforcement Training Center (FLETC).** The FLETC is working to improve Employee Satisfaction and will administer an employee satisfaction survey in FY 2001. They are providing improved human resource services through proactive consultations, automation, streamlining and elimination of unnecessary processes. Additionally, several programs were implemented to increase opportunities for individual professional and career development.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Systems Compliance

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies "… implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States government Standard General Ledger at the transaction level."

Based on the results of financial statement audits and management assessments conducted over the past three years, it was determined that several bureaus were not in substantial compliance with these requirements. Of these bureaus, the Mint has successfully resolved the conditions that caused their non-compliance. The bureaus with continuing non-compliance include the Internal Revenue Service (IRS), U.S. Customs Service (Customs), U.S. Secret Service (Secret Service), Office of the Comptroller of the Currency (OCC), Departmental Offices (DO), and the Financial Management Service in its responsibilities for government-wide accounting programs (FMS' bureau-specific systems achieved compliance during FY 2000.) Each of these bureaus has prepared system remediation plans designed to achieve compliance at the earliest possible date. The Department receives and reviews quarterly progress reports on these plans, and regularly discusses such progress with the Office of Management and Budget and all relevant audit entities.

Management Controls

As discussed in greater detail in Part III of this Accountability Report, at the end of FY 2000, the Department had 32 “material weaknesses” in various aspects of the overall control environment, as defined in the Federal Manager’s Financial Integrity Act (FMFIA). Bureaus having one or more material weakness include the IRS, Customs, Financial Management Service, OCC, Secret Service, DO and the Federal Law Enforcement Training Center. These weaknesses encompass serious shortcomings in such areas as processing controls, automated systems security, physical security, continuity of operations planning and the quality and accuracy of financial information.

For every material weakness, as well as for every lesser issue which has resulted in an audit finding and recommendation, management has imposed the need for specific corrective action plans to be developed, so as to resolve the identified shortcomings as expeditiously as possible. The implementation of corrective action plans receives continuous oversight at the bureau level, and quarterly progress reports are prepared and distributed to executive management throughout the organization. Significantly, in the two years since the beginning of FY 1999, the Department has achieved a 47% reduction in the number of material weaknesses (from 60 to 32 weaknesses).

Compliance with Laws and Regulations

The Department is required to comply with hundreds of laws and regulations as it conducts its business. The primary laws governing the preparation of the Accountability Report are the Chief Financial Officers Act, the Government Management and Reform Act, the Federal Managers' Financial Integrity Act, the Reports Consolidation Act, and the Federal Financial Management Improvement Act. The Office of Management and Budget has issued implementing regulations for each of these laws, which the Department has followed in preparing this Accountability Report. As noted in the "Systems Compliance" section above, several of the Department's bureaus are not in compliance with the Federal Financial Management Improvement Act. In addition, the Internal Revenue Service and the U.S. Customs Service are each in noncompliance with certain other laws and regulations. The IRS is not in complete compliance with the installment agreement and release of lien provisions of the Internal Revenue Code. Customs is not in complete compliance with the requirements of the CFO Act and the Consolidated Omnibus Budget Reconciliation Act that Customs conduct biennial reviews of certain user fees and make recommendations to change those fees based on the results of the reviews. Both bureaus are working to rectify these situations.

FUTURE EFFECTS ON EXISTING, CURRENTLY-KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS

Alcohol, Tobacco and Firearms (ATF) -- New Buildings Projects

Initiatives and final congressional authorization leading to new technologically upgraded and safer facilities for the Bureau were met in fiscal year 2000. Both the new ATF National Headquarters project and the National Laboratory Center project realized successful land agreements. Both projects also became deeply engaged in the multitude of major activities necessary to occupy both developments within the next four years. The realization of these two facilities for ATF will provide drastically improved efficiency of mission functions including training space. It will upgrade the technology infrastructure capabilities for ATF's future, and situate the Bureau toward the forefront of investigative and regulatory support, law enforcement operations, and delivery of services to industry and state and local customers and the public.

U.S. Customs Service (Customs)

Customs has formulated plans for systems modernization and has included requests for funding in its budget requests for the last several years. One part of the modernization initiative will rely on account management to streamline the commercial import process, lower the cost of trade compliance, and increase customer service for the trade community through faster cargo release and easier payment options. To date, however, no funding has been received for systems modernization. The risks of further system degradation, more network outages, and the potential for temporary failure of the system increase with each passing year. The estimates of costs to be incurred by the U.S. Government and the American trade community in case of system failure are considerable, and increase over time. As a result, the delay in funding and implementing systems modernization is perceived to be by far the most significant future source of risk and uncertainty in Customs operations. The perception is that continued failure to deal effectively with the risks involved could pose untenable demands on Customs capability to continue effective operations at some future date.

In another areas, the Continued Dumping and Subsidy Offset Act of 2000 was passed by Congress this year and states that duties assessed in accordance with a countervailing duty (CVD) order, an antidumping duty (AD) order, or a finding under the Anti-dumping Act of 1921 shall be disbursed annually to affected domestic producers for qualifying expenditures. Duties assessed in FY 2001 will be distributed by November 29, 2001. This distribution may have an impact on Customs financial statements.

Part of the difficulty for Customs in implementing the Act is that it does not address the issue of what to do if Customs distributes the funds and then the importer protests the AD/CVD case and the protest is upheld. If this happens, Customs may have to pay for the refund to the importer from other funds since the AD/CVDs have been disbursed to domestic producers. Also, if Customs is required to disburse the monies to the affected domestic producers before final liquidation of all underlying entries, erroneous liquidations by Customs could result in duty refunds and disbursements in excess of the AD/CVDs collected.

Bureau of Engraving and Printing (BEP)

BEP is undergoing major improvements to the infrastructure of its Washington, DC facility. Additionally, planning for the next generation design of currency notes has necessitated an extensive upgrade to building support systems (e.g., power distribution) in Washington, and an expansion of the Western Currency Facility in Fort Worth, TX. BEP is also initiating an equipment replacement program, upgrading and replacing fully depreciated and aging equipment at both facilities with state-of-the-art printing and processing equipment to improve quality and minimize costs.

External environmental factors that may affect BEP include dollarization, which is the adoption of the U.S. dollar as the unit of currency by foreign countries, the dollar coin, the Euro, and competition with private companies for designing and printing U.S. postage stamps. New technology may also affect the Bureau, as the use of substrates and other methods for extending the life of currency could result in a decrease in requirements. In addition, the increasing availability of more sophisticated scanning and printing technology may affect future currency design efforts.

Internal Revenue Service (IRS)

The IRS faces many challenges and opportunities as it modernizes, including implementation of the Restructuring and Reform Act of 1998 (RRA 98). The IRS is creating a modernized structure built around taxpayer needs. This structure includes revamped business practices, four operating divisions that focus on customer needs, management roles with clear responsibility, balanced measurements of performance, and new technology. Over the last several years, the General Accounting Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA) have issued reports identifying management challenges and high-risk areas within the IRS. The new management structure and technology focus, created as part of IRS' modernization efforts, is designed to address and reduce these high risks and mitigate their chance of occurring in the future. The following list summarizes these challenges and risks as of September 30, 2000: Tax Filing Fraud, Systems Modernization Efforts, Receivables, Financial Management, Improve Security Controls over Information Systems, Protecting Taxpayer Rights and Compliance Activities, Filing Season, Customer Service, Impact of Global Economy on Tax Administration, Modernization of IRS-Organizational Restructuring, Revenue Protection, and Implementation of Government Performance and Results Act (GPRA).

Success in achieving IRS' mission, goals, and objectives is influenced by the environment in which we operate and determines the strategies we use to achieve our goals. Each of the IRS' major organizational units conducted an assessment of their internal and external environment to identify trends, issues and problems (TIPS) that were affecting their business operations. They identified dozens of TIPS and developed strategies to address them. The most significant TIPS have been organized around twelve themes: Service to Taxpayers, Communication with Taxpayers, Pre-Filing Agreements, Electronic Tax Administration, Complexity of the Tax Law, Global Trading, Compliance Services, Areas of Low Compliance, Measuring Compliance, Human Resources Issues, Technology in Support of Business Operations, and Shared Services in Support of Business Operations.

Bureau of Public Debt

Despite budget surpluses, Treasury must still borrow. Much of our borrowing is done to replace securities that are maturing. This year, in addition to borrowing, Treasury reintroduced the buyback of outstanding Treasury securities for the first time in 70 years. During FY 2000, Public Debt conducted 13buyback operations, repurchasing $21 billion.

Given the expectation of continuing surpluses, we expect to conduct additional buyback operations, replace maturing debt with smaller amounts of new debt, conduct fewer auctions, and offer a smaller range of Treasury securities.

While the debt held by the public is decreasing due to surpluses, debt held by government agencies under our Federal Investment Fund Program is increasing. This program offers investment services to Government agencies that are authorized to invest in special non-marketable Treasury securities. Generally, the sources of the monies for investment are tax revenues, fees, and assessments collected for a specific purpose (such as Social Security taxes). Public Debt must continue to provide responsive processes and flexible systems to effectively support and account for expected substantial growth of these Federal investments.

ONGOING CHALLENGES

Major Management Challenges

Each year, the Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) organizations separately prepare and communicate to Congress lists of the major challenges faced by management, as seen from the audit perspective. For the most part, there is a high degree of overlap between the items on these lists and the areas having material weaknesses, as well as with other lists of challenges prepared by the General Accounting Office. For the challenges identified by the OIG, management has tracked the 123 related audit reports issued from January 1998 through the end of FY 2000. Eighty-three of these reports have been resolved in their entirety, and, during FY 2000, bureau management implemented 81 percent of planned corrective actions on time. For the IRS, 21 of the 92 reports issued since 1994 by TIGTA and its predecessor, the Office of the Chief Inspector, have been closed. During FY 2000, IRS management implemented 41 percent of its planned corrective actions on time.

Internal Revenue Service (IRS) Modernization and Restructuring

IRS has developed and is committed to an integrated modernization strategy. It has implemented a new organizational structure and has made progress in establishing management controls needed to effectively build and implement modern information systems. Substantial work remains for IRS' modernization before expected results are achieved. Ongoing efforts taken during FY 2000, which will continue in future years, include:

- Revamping business practices to better meet taxpayers needs;
- Implementing changes to the IRS' performance management system to better assess progress in achieving goals and improving operations;
- Correcting ongoing financial management weaknesses;
- Implementing effective systems modernization and management controls;
- Improving collection of unpaid taxes; and,
- Establishing a stable program management organization for the IRS' systems modernization efforts.

In addition to the implementation of computer programming changes, reduction of tax form complexity and taxpayer burden, improving quality customer service and reducing filing fraud remain a challenge for the IRS.

Law Enforcement Related Issues

Several law enforcement related issues were identified as management challenges or high-risk areas by the Office of Inspector General and the General Accounting Office, due to the nature of the issues and the overall implication to the success of Treasury's mission. Bureaus that are responsible for these programs have developed plans and are taking necessary actions to address these issues.

Treasury continues its fight in combating financial crimes against the currency of the United States and in preventing money laundering worldwide through enhanced law enforcement, improved banking supervision, and international cooperation.

Effective enforcement of trade laws is an ongoing management challenge. U.S. Customs Service information technology efforts are currently focusing on replacing Customs aging import processing system with integrated systems to handle increasing trade volume and related enforcement concerns.

Another concern is that illicit drugs continue to be imported into the United States, despite years of concerted effort by the Federal Government to prevent drug trafficking and smuggling. In addition, violent crime remains a serious problem in the United States, and measuring Treasury operation's impact remains a challenge. The Bureau of Alcohol, Tobacco and Firearms continues its effort in enforcing various gun and arson related laws, and initiating various programs to fight violent crime associated with firearms, explosives and arson.

Financial Management Related Issues

Treasury, as the largest revenue collection agency in the Federal Government, needs to strengthen its internal controls and improve financial systems to ensure appropriate revenue and delinquent debt owed to the Federal Government is collected and recorded timely.

Internal and external management reviews and audits continue to identify financial management weaknesses, which potentially hinder our ability to achieve our missions and program objectives. These weaknesses also have a significant impact on the Treasury bureaus' ability to carry out their programs or to prepare timely financial statements.

Part III of this Accountability Report provides specific information on these financial management weaknesses. Although Treasury has made good progress in resolving some of these weaknesses, we are unable to provide reasonable assurance that the objectives of Section 4 (financial management systems) of the Federal Managers' Financial integrity Act have been achieved. Treasury will continue to be rigorous in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing material weaknesses.

The Department of the Treasury also is responsible for preparing the consolidated financial statements (CFS) of the Federal Government. Although the agency financial systems and the quality of their financial data continue to improve, many significant areas in which the reliability of the current financial statements need to be improved before the General Accounting Office will be able to render an opinion on these statements. Treasury is committed to producing and reporting financial information that meets the highest standards of integrity.

Systems Security

Systems security is another on-going issue within the Department, which receives considerable attention. Material weaknesses in systems security exist at the IRS, Customs and FMS. In addition, the Department's oversight of the bureaus in these matters was identified in FY 1997 as another area needing significant improvement. During the past three years, the Department has moved to expand and improve its oversight activities, and each problematic bureau has made significant strides toward implementing the desired level of system security throughout their respective organizations. The Department will continue to direct appropriate attention and resources to this critical issue beyond the point when the most serious shortcomings have been resolved.

Part 2

Financial Statements and Notes

Consolidated Balance Sheet
As of September 30, 2000
(In Millions)

Entity Assets	
Intra-governmental Assets:	
Fund Balance (Note 2)	$60,165
Loans and Interest Receivable (Note 3)	43,747
Due from the General Fund, Net (Note 10)	15,788
Other Intra-governmental Assets	141
Total Intra-governmental Entity Assets	**119,841**
Cash, Foreign Currency, & Other Monetary Assets (Note 5)	21,474
Loans and Interest Receivable (Note 3)	9
Investments and Related Interest (Note 4)	4,728
Reserve Position in the International Monetary Fund (Note 6)	13,690
Investments in International Financial Institutions (Note 7)	5,138
Inventories and Related Property, Net (Note 8)	613
Property, Plant and Equipment, Net (Note 9)	2,791
Other Assets	173
Total Entity Assets	**168,457**
Non-Entity Assets	
Intra-governmental Assets:	
Fund Balance (Note 2)	755
Due from the General Fund, Net (Note 10)	5,382,942
Accounts Receivable and Related Interest	942
Advances to the Black Lung Trust Fund (Note 11)	6,749
Loans and Interest Receivable (Note 3)	166,045
Total Non-Entity Intra-governmental Assets	**5,557,433**
Cash, Foreign Currency, & Other Monetary Assets (Note 5)	54,692
Gold and Silver Reserves (Note 12)	10,933
Tax/Trade and Other Non-Entity Receivables, and Related Interest, Net (Note 13)	25,287
Other Assets	52
Total Non-Entity Assets	**5,648,397**
Total Assets	**$5,816,854**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet
As of September 30, 2000
(In Millions)

Liabilities Covered by Budgetary & Other Resources

Intra-governmental Liabilities:	
Loans Payable and Interest (Note 14)	$15,337
Other Intra-governmental Liabilities	585
Total Intra-governmental Liabilities Covered by Budgetary & Other Resources	**15,922**
Certificates Issued to Federal Reserve Banks (Note 15)	3,200
Allocation of Special Drawing Rights (Note 5)	6,359
Gold Certificates Issued to Federal Reserve Banks (Note 12)	10,924
Refunds and Drawbacks	1,274
DC Pension Liability (Note 16)	4,005
Other Liabilities	2,726
Total Liabilities Covered by Budgetary & Other Resources	**$44,410**

Liabilities Not Covered by Budgetary & Other Resources

Intra-governmental Liabilities Not Covered by Budgetary & Other Resources:	
Federal Debt and Interest Payable (Note 17)	2,237,059
Other Intra-governmental Liabilities	158
Total Intra-Governmental Liabilities Not Covered by Budgetary & Other Resources	**2,237,217**
Federal Debt and Interest Payable (Note 17)	3,427,094
DC Pension Liability (Note 16)	3,553
Other Liabilities	1,474
Total Liabilities Not Covered by Budgetary & Other Resources	**5,669,338**
Net Position (Note 19)	103,106
Total Liabilities and Net Position	**$5,816,854**

Commitments & Contingencies (Note 18)

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the Year Ended September 30, 2000
(In Millions)

	Combined	Elimination	Consolidated
Costs:			
Program A - Economic: Promote Prosperous and Stable American and World Economies			
Intragovernmental Costs			
Production	$209	-$7	$202
With the Public			
Production	$3,854	$0	$3,854
Total	$4,063	($7)	$4,056
Less Earned Revenues	$2,138	($832)	$1,306
Net Program A Costs	**$1,925**	**$825**	**$2,750**
Program B - Financial: Manage the Governments Finances			
Intragovernmental Costs			
Production	$6,187	($2,271)	$3,916
With the Public			
Production	$9,700	$0	$9,700
Nonproduction	$10	$0	$10
Total	$15,897	($2,271)	$13,626
Less Earned Revenues	$7,928	($107)	$7,821
Net Program B Costs	**$7,969**	**($2,164)**	**$5,805**
Program C - Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug Free America			
Intragovernmental Costs			
Production	$915	($193)	$722
With the Public			
Production	$2,437	$0	$2,437
Total	$3,352	($193)	$3,159
Less Earned Revenues	$177	($92)	$85
Net Program C Costs	**$3,175**	**($101)**	**$3,074**
Costs Not Assigned to Programs:			
Intragovernmental	$165	($46)	$119
With the Public	$819	$0	$819
Total	$984	($46)	$938
Less Earned Revenues Not Assigned to Programs	$603	($462)	$141
NET COST OF TREASURY OPERATIONS	**$13,450**	**($1,024)**	**$12,426**
FEDERAL DEBT INTEREST	$366,496	($1,068)	$365,428
LESS INTEREST REVENUE FROM LOANS	$12,132	($2,068)	$10,064
NET FEDERAL DEBT INTEREST COSTS	$354,364	$1,000	$355,364
FEDERAL DEBT BUYBACK LOSS	$5,519	$0	$5,519
OTHER FEDERAL COSTS	$8,403	$0	$8,403
NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS	**$381,736**	**($24)**	**$381,712**

Note: The Combined Statement of Financing does not include intra-agency eliminations
Note 20 provides additional cost information by Treasury reporting component.

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2000
(In Millions)

Net Cost of Operations	**$381,712**
Financing Sources: (Non-Exchange)	
Appropriations Used	381,813
Revenue from Forfeiture	93
Imputed Financing Sources	628
Financing Sources for Accrued Interest & Discount on the Debt	10,966
Transferred In	219
Transferred Out	(105)
Transferred Out to the General Fund of Treasury	(18,566)
Other (Note 24)	317
Total Financing Sources	**$375,365**
Net Results of Operations	(6,347)
Prior Period Adjustments (Note 19)	3
Net Change in Cumulative Results of Operation	**(6,344)**
Increase in Unexpended Appropriations.	2,072
Change in Net Position	(4,272)
Net Position (10/1/1999)	107,378
Net Position (9/30/2000) (Note 23)	**$103,106**

Note 23 provides the Combining Statement of Changes in Net Position by each Treasury reporting component.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
As of September 30, 2000
(In Millions)

BUDGETARY RESOURCES	
Budget Authority	$391,367
Unobligated Balance	40,979
Spending Authority from Offsetting Collections Earned	128,645
Adjustments	(8,211)
Total Budgetary Resources	**$552,780**
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	$513,842
Unobligated Balances Available	37,338
Unobligated Balances Not Available	1,600
Total Status of Budgetary Resources	**$552,780**
OUTLAYS	
Obligations Incurred	$513,842
Spending Authority from Offsetting Collections & Adjustments	(128,347)
Obligated Balance, Net-Beginning of the Period	8,041
Obligated Balance, Net-Ending of the Period	(8,212)
Total Outlays	**$385,324**

Note: The Combined Statement of Budgetary Resources does not include intra-agency eliminations.

The accompanying notes are an integral part of these statements.

Combined Statement of Financing
As of September 30, 2000
(In Millions)

Obligations and Nonbudgetary Resources	
Obligations Incurred	$513,842
Less: Spending Authority from Offsetting Collections and Adjustments	(128,347)
Imputed Financing	633
Financing Source for Accrued Interest & Discount on the Debt	10,966
Transfers-in (out)	(2,265)
Exchange Revenue Not in the Budget	(12,427)
Other	(1,506)
Total Obligations as Adjusted and Nonbudgetary Resources	**$380,896**
Resources Not Funding Net Cost of Operations	
Change in Undelivered Orders	557
Change in Unfilled Customer Orders	57
Capitalized Costs	(1,126)
Financing Sources that Fund Costs of Prior Periods	(251)
Other	(892)
Total Resources Not Funding Net Costs of Operations	**(1,655)**
Costs Not Requiring Resources	
Depreciation and Amortization	544
Revaluation of Assets and Liabilities	1,659
Other	129
Total Costs Not Requiring Resources	**2,332**
Financing Sources Yet to Be Provided	163
Net Cost of Operations	**$381,736**

Note: The Combined Statement of Financing does not include intra-agency eliminations.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Custodial Activity
Year Ended September 30, 2000
(In Millions)

SOURCES OF CUSTODIAL REVENUE & COLLECTIONS	
REVENUE RECEIVED (Note 28)	
Individual Income and FICA Taxes	$1,764,269
Corporate Income Taxes	235,393
Estate and Gift Taxes	29,722
Excise Taxes	70,194
Railroad Retirement Taxes	4,762
Duties	20,556
Fees & Licenses	2,069
Unemployment Taxes	6,986
Federal Reserve Earnings	32,293
Fines, Penalties, Interest & Other Revenue	3,414
TOTAL REVENUE RECEIVED	**$2,169,658**
Less payments from permanent, indefinite appropriations for refunds of taxes and duties (including related interest), duty drawback, and earned income tax credit (Note 29)	(195,323)
NET REVENUE RECEIVED	**$1,974,335**
Accrual Adjustment	1,747
TOTAL REVENUE	**$1,976,082**
DISPOSITION OF REVENUE RECEIPTS	
Amounts Provided to Non-Federal Entities	$303
Amounts Provided to Fund the Federal Government (Note 30)	1,974,032
Accrual Adjustment	1,747
Total Disposition of Custodial Revenue & Collections	**$1,976,082**
NET CUSTODIAL REVENUE ACTIVITY	**$0**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have figured in the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the Federal Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; maintaining foreign assets control; managing the Federal debt; overseeing the law enforcement functions carried out by the Department; managing the development of financial policy; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Department is comprised of Departmental Offices, International Assistance Programs, the Office of Inspector General, the Treasury Forfeiture Fund, the Exchange Stabilization Fund, the Federal Financing Bank, the Financial Crimes Enforcement Network, and the Community Development Financial Institutions Fund, as well as the following eleven bureaus: Bureau of Alcohol, Tobacco and Firearms; Office of the Comptroller of the Currency; U.S. Customs Service; Bureau of Engraving and Printing; Federal Law Enforcement Training Center; Financial Management Service; Internal Revenue Service; U.S. Mint; Bureau of the Public Debt; U.S. Secret Service; and Office of Thrift Supervision.

The accompanying financial statements reflect the activities of the U.S. Department of the Treasury. The Department's financial statements reflect the reporting of its own entity activities which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the Federal Government and others. Non-entity activities include the collection of Federal revenue, servicing the Federal debt, disbursing certain Federal funds, and maintaining certain assets and liabilities for the Federal Government as well as for others.

Revenues, expenses, assets, and liabilities resulting from transactions between the various Treasury entities for both entity and non-entity activities have been eliminated in preparing the accompanying consolidated financial statements. Non-entity and entity activity eliminated on the Department's balance sheet includes investments and debt of $16 billion. It also includes loans and borrowings of $29 billion. In terms of revenue and expenses, $3.1 billion was eliminated between entity and non-entity activities.

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of Treasury in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Treasury, pursuant to OMB directives that are used to monitor and control Treasury's use of budgetary resources.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the combined statement of financing, and the consolidated statement of custodial activity; all of which are prescribed by OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax/Trade and Other Non-Entity Receivables

Tax/Trade receivables are not accrued until related tax returns are filed, assessments are made, and prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on tax/trade receivables through the balance sheet date. Further, there are differences in recording assessments that should be reported on the balance sheet (tax/trade receivables) and those that should be disclosed as compliance assessments and write-offs. A summary of each category follows:

Tax/Trade Receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Department. Tax/Trade receivables are shown on the balance sheet net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible.

Compliance Assessments are unpaid assessments in which neither the taxpayer nor a court has affirmed that the taxpayer owes amounts to the Federal Government. Examples include assessments resulting from an audit or examination in which the taxpayer does not agree with the results of the audit or examination. These assessments are not reported in the financial statements. However, statutory provisions require that these accounts be maintained until the statute date for collection expires.

Write-offs consist of unpaid assessments on which the Department does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency. These amounts are not reported on the balance sheet as they are deemed uncollectible. However, statutory provisions require that these accounts be maintained until the statute for collection expires.

Other non-entity accounts receivable and related interest are recognized for amounts due to the Federal Government. These amounts include interest outstanding on monies deposited in Federal Reserve Banks. It also includes amounts Federal agencies owe to the Federal Government for the payment of water and sewage service; a payment made by the Department on behalf of the Federal Government. Also recorded as other non-entity receivables are certain loans made to foreign governments.

D. Investments

Investments are stated at amortized cost, which is an approximation of fair value. Premiums and discounts on investments are amortized using the straight line and effective interest methods.

Investments are adjusted to market value if Treasury intends to sell the security prior to maturity and there is a reduction in the security that is more than temporary.

E. Inventories and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Department utilizes various accounting methods to account for inventory and operating supplies, which approximates historical costs. All operating materials and supplies are recorded as an expense when consumed in operations.

Recognition of revenue from the forfeiture of property is deferred until the property is sold, or transferred to a state, local, or federal agency, or to a foreign government. Revenue is not recorded if the forfeited asset is ultimately destroyed, such as counterfeit property.

F. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable, from other Federal agencies, represent loans and interest receivable held by the Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from Other Federal Agencies represent loans issued by the Department to Federal agencies on behalf of the Federal Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the Federal agency who issues the loans.

G. Property, Plant and Equipment

The Department's property, plant and equipment is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Department owns one multi-use heritage asset, the Treasury building. Multi-use heritage assets are assets of historical significance whose predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury building are capitalized as general PP&E and depreciated over their service life.

The Department is comprised of many bureaus that are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy uses ranges rather than setting specific capitalization thresholds. The Department's capitalization policy permits the management of each of the Department's bureaus to select an appropriate capitalization threshold within the range of $25,000 minimum and $50,000 maximum. The Department also uses ranges for bulk purchases: $250,000 minimum and $500,000 maximum for non-manufacturing bureaus and $25,000 minimum and $50,000 maximum for manufacturing bureaus. Bureaus determine the individual item cost that will be applied to bulk purchases. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest is reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the effective interest method for zero coupon bonds and the straight-line method, which is not materially different from the effective interest method, for other securities.

Appropriations used to pay the interest expense of the debt are recognized only to the extent of the cash disbursement on the statement of changes in net position. Because the department recognizes appropriations used only to the extent of the cash disbursement, the Department reports in a similar fashion the obligations incurred for the interest expense on the Statement of Budgetary Resources. This differs from the amounts that the Department reports to the Office of Management and Budget on the SF 133, Report on Budget Execution. On this OMB report, the Department reports obligations incurred for the cash disbursement and the accrual of the interest expense.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Department recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributed 8.51 percent for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social

Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Department contributed 10.7 percent for regular FERS employees.

Similar to Federal retirement plans, (OPM) rather than the Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result of SFFAS No. 5, the Department is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires the Department to recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

Additionally, the Department's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a life insurance benefit plan for current employees who are not enrolled in FEGLI plans. This plan is a defined benefit plan, and OCC is fully responsible for the associated liability. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. DC Pensions Fund

The Balanced Budget Act of 1997, which became effective on October 1, 1997, provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of fund assets and distribution of pension benefits. To varying degrees the Secretary is responsible for three District retirement programs:

- Police Officers and Firefighters Retirement Program
- Teachers Retirement Program
- Judges Retirement Program

For the Police Officers, Firefighters and Teachers, the Secretary acting on behalf of the Federal Government is required to pay for benefits earned prior to and on June 30, 1997. The District Government is responsible for paying benefits earned after June 30, 1997. For the Judges, the Secretary, acting on behalf of the Federal Government, is required to pay for benefits earned both before and after June 30, 1997.

During FY 2000, the remaining securities that had been transferred by the DC Government to the Department during FY 1999 were liquidated and the proceeds invested in public debt securities. As of September 30, 2000, liquidation of the assets was substantially completed, except for a minor amount that could not be sold due to illiquidity or other unusual characteristics of the assets.

K. Certificates Issued to Federal Reserve Banks

Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

L. Allocation of Special Drawing Rights

Allocation of Special Drawing Rights are valued as of September 30, 2000, using current exchange rates which approximate their fair value. Footnote Number 5 “Cash, Foreign Currency, and Other Monetary Assets” provides additional information regarding how the allocations are valued.

M. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees’ Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers’ compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. A new model was used in FY 2000 for estimating the actuarial liabilities which includes claims incurred but not reported and the extension of the duration of the model, which was previously 37 years.

N. Revenue & Financing Sources

The Department’s activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are accounted for when received by the collecting entity. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Changes in Net Position as imputed financing sources equal to the cost paid by the providing entity. Other non-exchange financing sources such as donations, and transfers of assets without reimbursements also are recognized for the period in which they occurred.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

O. Sources of Custodial Revenues and Collections

Non-entity revenue reported on the Department's statement of custodial activity includes cash collected and received by the Department. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the Federal Government or are earmarked for certain trust funds. Revenue from taxes and duties are recognized when cash is received.

P. Tax Assessments and Abatements

Under the IRC Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under reporter, substitute for return, and combined annual wage reporting.

The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process (e.g., a qualifying corporation claimed a net operating loss that created a credit that can be carried back to reduce a prior year's tax liability, amended tax returns, correction of an assessment from an enforcement program, taxes discharged in bankruptcy, accepted offers in compromise, penalty abatements for reasonable cause, contested assessments made due to mathematical or clerical errors, and assessments contested after the liability has been satisfied). Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Types of Taxes

The type of taxes and other revenue received included on the Department's Consolidated Statement of Custodial Activity includes:

Individual Income & FICA Taxes -- Federal income and social security taxes paid under Subtitle A of the Internal Revenue Code (IRC). Pursuant to the Social Security Act, as amended by P.L. 94-202 effective January 1, 1978, Social Security taxes are collected primarily through the Federal Tax Deposit (FTD) system and remitted to the Social Security trust fund.

Corporate Income Taxes -- Federal income taxes paid by businesses under Subtitle A of the IRC.

Estate and Gift Taxes -- Taxes paid under Subtitle B of the IRC.

Excise Taxes -- The Department collects excise taxes for various trust funds and accounts, including the Highway Trust Fund, Airport and Airways Trust Fund, and the Mass Transit Account. Excise taxes are collected on various items including the purchase of airline tickets, gasoline products, and many others. The Department also collects excise taxes on distilled spirits and imported liquor, tobacco, and firearms.

Unemployment Taxes -- The collection of unemployment taxes under Subtitle C of the IRC is administered by the IRS. Federal unemployment taxes are also collected primarily through the FTD system and remitted to the Department of Labor's Unemployment Trust Fund.
Duties -- Amounts collected by Customs on imported goods.

Federal Reserve Earnings -- Funds deposited by the Federal Reserve Bank, from earnings on deposits. Pursuant to Sec. 16 of the Federal Reserve Act, the Federal Reserve remits earnings and deposits to the General Fund.

Fines, Penalties, Interest, and Other Revenue -- Fines assessed for violations, or late charges and interest charged for delinquent payment of taxes. Interest revenue is from the loans provided on behalf of the General Fund to other Federal agencies. Other revenue includes other miscellaneous revenue collected by the Department and deposited into the General Fund.

Disposition of Custodial Revenue Collections -- Amounts are recognized as dispositions for: (1) funds deposited to the general fund and other entities; and (2) amounts to be transferred upon collection.

Railroad Retirement Taxes – The collection of railroad retirement taxes under Subtitle C of the IRC is administered by the IRS as imposed by the Railroad Retirement Tax Act for the purpose of providing retirement benefits for railroad employees.

Q. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in some instances, reported as a custodial activity of the Department. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not recognized by the Department as an operating expense of the Department. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department also receives permanent and indefinite appropriations to make payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. It includes appropriations provided to make other disbursements on behalf of the Federal Government, including payments made to various individuals as the result of certain claims and judgements rendered against the United States.

R. Imputed Costs/Financing Sources

The Department recognizes imputed financing on its financial statements to reflect funding it will receive from the General Fund for the interest expense of the debt, which includes amortization of discount.

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities often incur costs that are paid in total or in part for other entities. These constitute subsidized costs which are recognized by the receiving entity. An imputed financing source is also recognized by the receiving entity. The Department of the Treasury recognized imputed costs and financing sources in fiscal year 2000 to the extent directed by the OMB.

2. Fund Balance

Entity

Entity fund balance includes balances that are available to pay liabilities and to finance authorized purchase commitments. In addition to amounts received from appropriations to pay salaries and expenses, fund balance also includes amounts received from appropriations to make contributions to various international financial institutions (see Note 7). As of September 30, 2000, fund balance consisted of the following (in millions):

	Entity	Non-Entity	Total
Appropriated Funds	$57,778	$298	$58,076
Trust Funds	191	0	191
Revolving Funds	1,419	13	1,432
Other Fund Types	765	444	1,209
Restricted Unobligated Funds	12	0	12
Total	$60,165	$755	$60,920

Entity appropriated funds consist of $39.8 billion in obligations for outstanding letters of credit issued to the International Monetary Fund (IMF) and Multi-lateral Development Banks (MDBs), which can draw down on these letters of credit as funds are needed.

Non-Entity

Non-entity fund balance represents unused balances of appropriations received by various Treasury entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes, duties, fees, and drawbacks.

Effective October 1, 1998, interest accruals are no longer charged to Interest on Public Debt appropriations. Instead, the interest is charged to the appropriation when paid. Therefore, the interest accruals are no longer included in fund balance.

Included in entity fund balance are restricted amounts. Restricted amounts primarily include collections, which can be used to offset certain costs of operations. However, these amounts are restricted from funding the cost of these operations until authority is granted through Appropriations Acts.

3. *Loans and Interest Receivable*

Loans and interest receivable represent loans held by the Department arising from its own operations (entity) and loans held on behalf of the Federal Government (non-entity).

Entity

As of September 30, 2000 intra-governmental loans and interest receivable consisted of the following (in millions):

Agency Loans Purchased	$9,868
Direct Loans Purchased	9,262
Guaranteed Loans	23,850
Interest Receivable, Intra-governmental Loans	1,023
Less Discount	(1)
Less Allowance on Loans & Interest Receivable	(255)
Total Entity Loans Receivable - Intra-governmental	$43,747

Agency loans purchased are either notes or pools of loans sold by Federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Guaranteed loans are loans made to non-federal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency.

As of September 30, 2000, loans and interest receivable from non-federal entities consisted of the following (in millions):

Direct Loans	$15
Less Allowance/Subsidy Cost	(6)
Total Entity Loans Receivable - Non-Federal Entities	$9

Non-Entity

Non-entity loans and interest receivable represent loans managed by the Department on behalf of the Federal Government. The Department is responsible for collecting these loans and transferring the proceeds to the General Fund. These loans are provided to Federal agencies.

As of September 30, 2000, non-entity loans and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	Total
Federal Direct Student Loan Program	$65,347	$7	$65,354
Disaster Loan Fund	9,582	619	10,201
Rural Electrification and	10,077	0	10,077
Commodity Credit Corporation	23,800	210	24,010
Rural Housing Insurance Fund	8,607	0	8,607
Federal Housing Administration	7,155	0	7,155
Housing for the Elderly and Handicapped	3,653	170	3,823
Export Import Bank	6,683	0	6,683
Other	28,837	1,298	30,135
Total Non-Entity Loans Receivable	$163,741	$2,304	$166,045

4. Investments and Related Interest

Entity

Most of the Department investments are with the Exchange Stabilization Fund. Securities that the Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts.

As of September 30, 2000 entity investments consisted of the following (in millions):

Type of Investment	Cost	Amortized (Premium)/ Discount	Less Amounts for Elimination	Investment Net	Interest Receivable	Investment Balance 9/30/00
Japanese T- Bills	$3,000	$0	$0	$3,000	$1	$3,001
German Bonds	1,016	0	0	1,016	32	1,048
German BUBills	215	0	0	215	3	218
Other	461	0	0	461	0	461
Total Non-Federal	$4,692	$0	$0	$4,692	$36	$4,728

Market value of these investments as of September 30, 2000 was as follows:

Japanese T- Bills	$3,000
German Bonds	1,015
German BUBills	219
Japanese Financing Bills	435
Total	$4,669

5. *Cash, Foreign Currency, and Other Monetary Assets*

Entity

Entity cash, foreign currency, and other monetary assets primarily include foreign currency denominated assets (FCDA), special drawing rights (SDR), and forfeited cash. SDRs and FCDAs are valued as of September 30, 2000, using current exchange rates. The amounts held as of September 30, 2000 were as follows (in millions):

Cash	$24
Foreign Currency	
Japanese Yen	5,610
European Euro	5,298
Other	28
Other Monetary Assets	
Special Drawing Rights	10,397
Other	117
Entity Total	$21,474

Other includes U.S. dollars restricted for use by the International Monetary Fund, and are maintained in two accounts at the Federal Reserve Bank of New York.

Certain operations of the Department result in the holding of various FCDAs. The foreign currency holdings are normally invested in interest bearing assets issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, except for foreign currencies under swap agreements with developing countries, were valued at $8.5 billion as of September 30, 2000. Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2000, FCDAs with maturities greater than three months were valued at $2.4 billion.

The SDR is an international reserve asset created by the International Monetary Fund (IMF). It was created as a supplement to existing reserve assets, and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR department. The value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European Euro (components consist of the French and German weights), the Japanese yen, and the pound sterling. The Department's SDR holdings and allocations are revalued monthly based on the SDR valuation rate calculated by the IMF.

During Fiscal Year (FY) 2000, the Department purchased, at the prevailing rates, $577.6 million equivalent of SDRs received from the IMF by the General Fund of the U.S. Government as remuneration (interest) on the U.S. reserve position in the IMF, and paid the General Fund $5.9 million in FY 2000, in interest on dollars due the General Fund in return for SDRs received as remuneration. As of September 30, 1999, the Department had an outstanding payable of $139.3 million equivalent of SDRs to the General Fund for the August 2000 IMF remuneration.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are resources unless:

a. canceled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF;
b the SDR Department of the IMF is liquidated;
c. the IMF is liquidated; or
d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's liability related to the SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2000, the amount of SDR holdings was the equivalent of $10,397 million and the amount of SDR allocations was the equivalent of $6,359 million.

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the Federal Government, managed by the Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromise which are maintained as the result of the Department's law enforcement and tax collecting responsibilities. The amounts held as of September 30, 2000 were as follows (in millions):

Operating Cash of the Federal Government	$54,357
Undistributed Cash/Offers in Compromise	249
Seized Monetary Instruments	7
Other	79
Non-Entity Total	$54,692

The Operating Cash of the Federal Government represents balances from tax collections, customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts.

The Operating Cash of the Federal Government includes compensating balances, totaling $6.0 billion as of September 30, 2000. These balances are deposited interest free to compensate commercial banks for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.). Operating Cash of the Federal Government is either insured (for balances less than $100,000) by the Federal Deposit Insurance Corporation or collaterized by securities pledged by the depository institutions and held by the Federal Reserve Banks.

Seized Monetary Instruments and Seized Property

Seized property as defined by SFFAS No. 3, Accounting for Inventory and Related Property, includes monetary instruments, real property, and tangible personal property of others in the actual constructive possession of the custodial agency. The Department seizes monetary instruments and property in terms of the definition provided by SFFAS No. 3 as the result of tax, forfeiture, criminal, and other enforcement actions. Seized property (including currency and monetary instruments) is recorded at its market value at the time of the seizure. The value is determined by the seizing organization and is usually based on market analysis such as third party appraisals, standard property value publications or bank statements.

The Department held $82 million in seized currency as of September 30, 2000. Of this amount $3.1 million was held as the result of tax and criminal enforcement actions and $79 million was held as the result of the Treasury Forfeiture Fund Program.

The Department, through the Treasury Forfeiture Fund Program, seizes property such as real property, and tangible personal property of others that is in actual, constructive, or custodial possession of the Department, resulting from the enforcement of Federal law. Also included in seized property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

The following tables provide detailed information about the Department's seized monetary instruments and property in relation to the Department's Forfeiture activities. Seized Currency on the Analysis of Change in Seized Assets includes $79 million reported on the Balance Sheet. It also includes investments of seized currency of $217 million.

Analysis of Change in Amount of Seized Assets
(In Thousands)

Type of Asset *	Balance 10/01/1999	Seizures	Remissions a/	Forfeitures	Adjustments b/	Value Change c/	Balance 09/30/2000
Currency	$300,194	$202,852	($82,568)	($136,213)	$10,906	$1,221	$296,392
Other Monetary Instruments	11,947	4,854	(371)	(1,155)	(7,686)	(352)	7,237
Real Property	72,882	28,331	(5,234)	(40,248)	6,487	(2,869)	59,349
General Property	169,447	163,695	(178,804)	(26,598)	(6,960)	(16,898)	103,882
Vessels	2,051	12,904	(7,455)	(3,390)	(11)	(15)	4,084
Aircraft	9,247	14,352	(16,537)	(3,133)	(1,255)	0	2,674
Vehicles	18,837	61,647	(35,805)	(16,522)	(244)	(1,543)	26,370
Total Seized Assets	$584,605	$488,635	($326,774)	($227,259)	$1,237	($20,456)	$499,988

Analysis of Change in Number of Seized Assets

Type of Asset *	Balance 10/01/1999	Seizures	Remissions a/	Forfeitures	Adjustments b/	Balance 09/30/2000
Currency	(d)					(d)
Other Monetary Instruments	(d)					(d)
Real Property	266	148	(59)	(87)	38	306
General Property	11,954	21,086	(8,601)	(14,194)	(1,050)	9,195
Vessels	85	129	(37)	(102)	(8)	67
Aircraft	15	20	(20)	(4)	(2)	9
Vehicles	2,220	9,488	(3,448)	(5,446)	(121)	2,693
Total Seized Assets	14,540	30,871	(12,165)	(19,833)	(1,143)	12,270

a/ Remissions include seized items which were classified as prohibited, but subsequently returned to the owner once a legal right to possess the item was established. Examples include firearms or controlled substances obtained by prescription.

b/ Adjustments - include reclassification of property categories and minor adjustments to beginning balances. Additionally, adjustments include property turned over to state and local or other Federal Law enforcement agencies for prosecution or destruction prior to forfeiture.

c/ Value Change - is an adjustment to reflect the net value change of a seized asset from the initial appraisal to the latest appraisal. This could result in either a positive or negative change.

d/ Inconsistent methods have been used to record the number of seizures of currency and other monetary instruments. Therefore, numbers provided would not be compiled from a uniform base, and accordingly, are not provided.

* Prohibited Property is analyzed separately in the following chart.

Analysis of Change in Prohibited (Non-Valued) Seized Property

Category	Balance October 1, 1999			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	1,330	2,925	---	445,216	981,523	---	0	0	---
Cocaine	1,351	2,972	---	44,253	97,560	---	0	0	---
Heroin	14	31	---	1,393	3,071	---	0	0	---
Firearms	---	---	4,729	---	---	3,175	---	---	(3,008)
Pornography	---	---	21,272	---	---	5,259	---	---	(873)
Other	0	0	0	0	0	0	0	0	0
Total	2,695	5,928	26,001	490,862	1,082,154	8,434	0	0	(3,881)

Category	New Forfeitures			Adjustments			Balance September 30, 2000		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	(441,199)	(972,667)	---	370	816	---	5,717	12,597	---
Cocaine	(42,410)	(93,497)	---	(341)	(752)	---	2,853	6,283	---
Heroin	(1,343)	(2,961)	---	(12)	(26)	---	52	115	---
Firearms	---	---	(4,006)	---	---	3	---	---	893
Pornography	---	---	(6,598)	---	---	3,131	---	---	22,191
Other	0	0	0	0	0	0	0	0	0
Total	(484,952)	(1,069,125)	(10,604)	17	38	3,134	8,622	18,995	23,084

*Note: This schedule is presented for material prohibited (non-valued) property only.
The ending balance for firearms includes only those seized items that can actually be used as firearms.

Notes

6. Reserve Position in the International Monetary Fund

The IMF was established in 1946 with the mission of promoting international monetary cooperation and stable payments system to facilitate growth in the world economy. Since its establishment, the IMF's purposes have remained unchanged but its activities and procedures – focused on surveillance of member economies, financial assistance, and technical assistance – have evolved to meet the needs of its member countries in a changing world economy.

The United States participates in the IMF, as do other members, through a quota subscription. Each country's quota is based on a set of criteria that relate to various dimensions of its relative size in the world economy. Quotas are generally reviewed every five years, with general increases occurring when necessary for the IMF to have additional liquidity available to serve its role in the international monetary system. Increases are generally shared proportionally among members, although increases are possible on any basis approved by the requisite majority of members (for instance to adjust one country's quota to reflect a change in sovereignty).

Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or Special Drawing Rights (SDRs), and partly by making domestic currency available as needed through a non-interest-bearing letter of credit made available to the IMF. (The SDR is an international reserve currency asset created by the IMF; its value is determined as a weighted average of a basket of currencies – currently the dollar, euro, pound sterling and yen.) Approximately one quarter of one percent of the U.S. quota is maintained in cash balances, subject to minimum and maximum amounts, in an operating account used in conjunction with the IMF's transactions with other member countries, and a small amount is maintained in a separate account for the IMF's administrative expenses. The bulk of the IMF's dollar holdings are in a letter of credit, as described above, which is issued by Treasury and maintained by the Federal Reserve Bank of New York.

The IMF draws dollars from the letter of credit as necessary to help finance its operations and expenses. When resources are transferred by the United States to the IMF in the form of reserve assets or dollars obtained through encashment of the letter of credit, the United States simultaneously receives an equal, offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF. The reserve position, including any increases resulting from encashment of the letter of credit, is interest-bearing and liquid – and can be drawn at any time in case of a balance of payments need. The U.S. reserve position is denominated in SDRs, as is the U.S. quota.

The budgetary treatment of the U.S. quota in the IMF differs from normal budget accounting. While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest bearing and can be drawn at any time in case of a balance of payments need – and in practice has been drawn under such circumstances. Similarly, when the IMF transfers dollars to the United States, no net budget receipt results because the U.S. reserve position declines simultaneously by an equal amount.

Fluctuations in the value of the dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. reserve position in the IMF. When the dollar appreciates against the SDR, a valuation loss is experienced and recorded as an increase to the Appropriations Used line item on the Statement of Changes in Net Position, because the dollar value of U.S. holdings has decreased. When the dollar depreciates against the SDR, a valuation gain is experienced and recorded as a reduction to Appropriations Used, because the dollar value of U.S. holdings has increased. As a result of the appreciation of the dollar against the SDR between end-fiscal year 1999 and end-fiscal year 2000, the U.S. experienced a valuation loss on the reserve position of approximately $1.1 billion. There are no transactions associated with this exchange-rate driven change in the dollar value of the reserve position, and there are no net outlays involved prospectively, although outlays are recorded retrospectively to reflect the valuation change.

The U.S. quota in the IMF is SDR 37.1 billion, valued at approximately $48.2 billion as of September 30, 2000. The quota includes the following amounts, in millions.

Composition of U.S. Quota in the International Monetary Fund:

Letter of credit 1/	$34,408
U.S. dollars held in cash by the IMF 1/	117
Reserve Position 2/	13,690
U.S. Quota in the IMF	$48,215

1/ This amount is included in entity appropriated funds under Note 2, Fund Balance, and unexpended appropriations - obligations/undelivered orders under Note 19, Net Position.

2/ This amount is included in cumulative results of operations under Note 19.

Because the unused domestic currency portion of the U.S. quota – largely held in the letter of credit – is denominated in SDRs, but payable in U.S. dollars, periodic adjustments are made to maintain the SDR value of these holdings. These adjustments are settled after the close of the IMF financial year on April 30, although accrued maintenance of value amounts are calculated daily. Adjustments to the letter of credit do not involve a flow of funds. At April 30, 2000, the appreciation of the dollar against the SDR since April 30, 1999, called for a downward adjustment of the letter of credit by $860.4 million. The dollar balance shown above for the letter of credit includes an accrued maintenance of value amount.

The United States earns interest on its reserve position in the IMF, including the increases in the reserve position that result when the letter of credit is drawn down by the IMF, except for the portion of the reserve position originally paid in gold. This interest is called "remuneration." Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket). Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share any financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines. Generally, in recent years, the amount of remuneration payments deferred has been about 5 percent of accrued remuneration. The total burden-sharing reduction from the IMF remuneration received during FY 2000 was $26.8 million.

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources under certain circumstances. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). These supplemental arrangements make possible temporary support for IMF lending operations in times of crisis when IMF liquidity is low, such as in 1998. To vote in favor of activating these loans, the Secretary of the Treasury must first certify to Congress that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and that the IMF has fully explored other means of funding. There were no U.S. loans under these arrangements in FY2000, and all U.S. loans to the IMF made under these borrowing arrangements had been repaid in full prior to FY 2000. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2000, this amounted to $8.7 billion in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB results in a simultaneous adjustment to the U.S. reserve position in the IMF.

Because of the unique budgetary treatment of U.S. participation in the IMF and GAB/NAB, the Department does not recognize the U.S. quota in the IMF and U.S. participation in the GAB and NAB as budgetary resources in the Combined Statement of Budgetary Resources. FY 2000 "actual" amounts related to the quota and borrowing arrangements to be reported in the FY 2002 Budget of the United States include:

*Unobligated balance available, end of year -- $15.1 billion for the reserve position and $8.7 billion for the GAB and NAB.

*Obligated balance, end of year -- $35.2 billion representing the quota amount available to the IMF in the Letter of Credit and U.S. dollars held in cash by the IMF.

The IMF also maintains a facility for lending on concessional terms to low-income developing country members in support of economic reform programs. Formerly called the Enhanced Structural Adjustment Facility (ESAF), this facility is now known as the Poverty Reduction and Growth Facility (PRGF). Lending in support of PRGF arrangements and subsidization of interest due on such lending are financed through loans and subsidy contributions from member countries, rather than through the IMF's quota resources. When the original ESAF program was established in 1987, Congress appropriated $150 million for a U.S. contribution to the interest subsidy account. Congress provided another $25 million in FY 1995 in partial payment on a U.S. pledge of $100 million for the interest subsidy account of the extended and enhanced ESAF, now PRGF. At the start of FY 2000, $26 million remained unpaid but available to the IMF for this purpose. In FY 2000, the Department paid $17 million of these appropriated resources. This contribution represents an expense to the Department. On September 30, 2000, $9 million remained unpaid but available to the PRGF in the form of a letter of credit.

7. Investments in International Financial Institutions

The Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing the United States' economic, political, and commercial interest abroad. The MDBs consist of the World Bank Group, five regional development banks and the Global Environment Facility.

Most of the contributions to financial institutions involve investments in MDBs. The Department has the lead in negotiating the establishment and replenishment of resources for these financial institutions through multilateral agreements. These agreements specify the financial elements, underlying provision of resources, and longer-term policy framework within which these resources will be used. Congress appropriates funds for capital subscriptions and contributions to the multilateral development accounts in foreign operations appropriation acts. These appropriations were $1.1 billion in FY 2000. Appropriations can be used for three types of transactions: paid-in capital, callable capital, and replenishments (concessional loans/grants). Paid-in capital is the capital stock the U.S. buys with U.S. currency or a convertible currency. No dividends are received; however, on occasion, there have been net income transfers to the concessional loan programs. Callable capital is issued not for money, but for the good faith commitment of the member to pay in cash upon request by the bank. Callable capital subscriptions are subject to call, under limited circumstances, only when required to meet the obligations of the respective MDBs created by borrowing. To date, there has not been, nor is there anticipated to be, a call on capital subscription. For this reason, beginning in fiscal year 1981, callable capital was no longer appropriated. Congress provided for callable capital through the use of program limitations in appropriation legislation instead of appropriations. Amounts previously appropriated for callable capital totaled $6.5 billion and are included in the Appropriated Funds line item balance as part of Entity Fund Balance with Treasury. Replenishments are funds provided to the banks for their concessional lending operations. These contributions are not expected to be paid back to the U.S. Rather, repayments of the concessional loans go back to the concessional window for further lending, thus reducing the burden on the member countries for future replenishments. FY 2000 contributions to the MDBs were $1.3 billion.

U.S. payments to MDBs are made by cash transfers, non-interest-bearing letters of credit, or a combination of the two. The Department authorizes both the cash payments and letters of credit issued to the institutions. The Federal Reserve Bank of New York administers the letters of credit.
The Department currently values its investments in these financial institutions for paid-in capital at cost. Contributions to these international financial institutions for paid-in capital are reported as investments.

As of September 30, 2000, investments in international financial institutions consisted of the following (in millions):

Inter-American Development Bank	$1,355
Asian Development Bank	403
International Bank for Reconstruction & Development	1,985
African Development Bank	139
Multilateral Investment Guarantee Agency	23
European Bank for Reconstruction & Development	419
North American Development Bank	174
International Buffer Stocks	70
International Finance Corporation	570
Total	$5,138

8. Inventories and Related Property, Net

Inventories and related property includes inventories, operating materials and supplies, and forfeited property held by the Department, that as of September 30, 2000 are as follows (in millions):

Inventories and Related Property:	
Inventories, Net	$498
Materials and Supplies	87
Forfeited Property	28
Total	$613

Inventories, Net

The Department's manufacturing entities, the Bureau of Engraving and Printing (BEP) and the United States Mint, maintain inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. The Financial Management Service also holds inventory for check processing activities. These inventories as of September 30, 2000 are as follows (in millions):

Inventory Category	Acquisition Cost	Allowance for Losses	Inventory Net
Inventory held for current sale	$511	($12)	$499
Excess, Obsolete, and Unserviceable	(1)	0	(1)
Total	$510	($12)	$498

Composition of Inventory:	
Raw Material & Supplies	$230
Work in Process	196
Finished Goods	72
Total	$498

Operating Materials and Supplies, Net

The Department's operating materials and supplies primarily consist of aircraft and marine parts used to repair and maintain aircraft and vessels for enforcement related activities. Operating materials and supplies are also maintained for the production of bureau products. As of September 30, 2000, operating materials and supplies was as follows (in millions):

Composition of Materials:	
Held for Use	$93
Excess, Obsolete, and Unserviceable	(6)
Total	$87

Forfeited Property, Net

As a consequence of enforcing various laws, certain property is seized by the Department's enforcement bureaus. The seized assets may be subsequently forfeited to the government through abandonment or administrative or judicial procedures. Information concerning seized assets activity can be found under footnote five, Cash Foreign Currency and Other Monetary Assets. As of September 30, 2000 forfeited property held by the Department was as follows (in millions):

Property held for sale	$ 30.9
Property to be shared with Federal, state or local, or foreign	0.3
Total Forfeited Property (Gross) 9/30/00	$31.2
Less: allowance for mortgages and claims on Property held for sale	3.1
Total Forfeited Property (Net) 9/30/00	$28.1

Forfeited property is recorded at estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the Federal Government and a corresponding credit is made to the related accounts receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and are reflected as a reduction of sales of forfeited property.

Also included in forfeited property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

The following schedule presents the changes in the forfeited property balances from October 1, 1999 to September 30, 2000 (in thousands):

	10/1/99 Financial Statement Balance		Adjustment		10/1/99 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$13,266	-----	$0	-----	$13,266	-----	$136,213	-----	($134,858)	-----	($4,637)	-----
Other Monetary Instruments	1,287	0	161	0	1,448	0	1,155	0	(1,080)	0	0	0
Real Property	19,312	167	2,822	0	22,134	167	40,248	87	(41,617)	(131)	(607)	(5)
General Property	2,811	6,957	10,023	197	12,834	7,154	26,598	21,380	(20,242)	(3,015)	(5,138)	(1,527)
Vessels	1,129	52	257	0	1,386	52	3,390	102	(2,793)	(84)	(538)	(18)
Aircraft	537	4	(70)	0	467	4	3,133	4	(217)	(3)	(3,325)	(3)
Vehicles	4,595	1,903	1,400	0	5,995	1,903	16,522	5,446	(13,001)	(5,672)	(3,167)	(188)
Prohibited Items	-----	20,166	-----	0	-----	20,166	-----	69,383	-----	0	-----	(2,061)
Total Forfeited Property (Gross)	$29,671	29,249	$14,593	197	$44,264	29,446	$91,046	96,402	($78,950)	(8,905)	($12,775)	(3,802)
Grand Total	$42,937	29,249	$14,593	197	$57,530	29,446	$227,259	96,402	($213,808)	(8,905)	($17,412)	(3,802)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/00 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$0	-----	$0	-----	$6,567	-----	$88	-----	$0	-----	$16,639	-----
Other Monetary Instruments	0	0	0	0	(964)	0	(21)	0	(172)	0	366	0
Real Property	0	0	0	0	1,721	2	(817)	0	402	0	21,464	120
General Property	0	0	(220)	(16,262)	194	634	(399)	0	(9,799)	0	3,828	8,364
Vessels	0	0	(1)	(16)	25	7	(183)	0	(327)	0	959	43
Aircraft	0	0	0	0	0	0	0	0	7	0	65	2
Vehicles	0	0	(2)	(51)	183	144	(152)	0	(1,877)	0	4,501	1,582
Prohibited Items	-----	0	-----	(71,266)	-----	558	-----	0	-----	0	-----	16,780
Total Forfeited Property (Gross)	$0	0	($223)	(87,595)	$1,159	1,345	($1,572)	0	($11,766)	0	$31,183	26,891
Less Allowance											(3,069)	
Total Forfeited Property (Net)											$28,114	
Grand Total	$0	0	($223)	(87,595)	$7,726	1,345	($1,484)	0	($11,766)	0	$44,753	26,891

Value change is an adjustment to reflect the net value of a forfeited asset from the initial appraisal to the latest appraisal. This could result in a positive or negative change.

The fair value adjustments above are necessary to convert forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is the amount recorded in the financial statements. Other adjustments primarily represent property forfeited in prior fiscal years but reversed to seized status during the current fiscal year. Due to the varied mix of specific types of assets within each asset category, the number of items presented in the 10/1/99 balance represent quantities calculated using many different units of measure. Due to the use of different units of measure, within each asset category, the usefulness of this quantity disclosure is questionable. In FY 2000, in order to present a more meaningful quantity, the number presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure of quantity. Other adjustments above primarily represent minor reclassifications or adjustments to beginning balances.

9. *Property, Plant and Equipment, Net*

As of September 30, 2000, property, plant and equipment consists of the following (in millions):

	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land	N/A	N/A	$22	$0	$22
Structures, Facilities	S/L	3-50 yrs	604	(227)	377
ADP Software	S/L	2-10 yrs	90	(31)	59
Equipment	S/L	2-20 yrs	1,122	(620)	502
Assets under Capital Lease	S/L	2-25 yrs	121	(41)	80
Construction in Progress	N/A	N/A	244	0	244
Aircraft	S/L	12-20 yrs	409	(206)	203
ADP Equipment	S/L	3-5 yrs	1,409	(382)	1,027
Vessels	S/L	5-10 yrs	24	(22)	2
Vehicles	S/L	6 yrs	66	(39)	27
Other	S/L	2-30 yrs	336	(88)	248
Total	N/A	N/A	$4,447	($1,656)	$2,791

* N/A -Not Applicable

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties.

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely.

10. *Due from the General Fund, Net*

The Department is responsible for managing various assets and liabilities on behalf of the Federal Government. Assets managed by the Department on behalf of the General Fund includes cash, silver reserves, loans, advances, and tax/trade receivables. In terms of liabilities, the Department manages the Federal debt as well as tax refunds on behalf of the Federal Government.

Because these assets and liabilities belong to the Federal Government, the Department does not report the net related effect of these transactions in net position. Instead, the Department reports this net effect in the account, “Due from the General Fund.” As of September 30, 2000, Due from the General Fund (Net) included the following (in millions):

Liabilities Requiring Funding From the General Fund	
Federal Debt & Interest Payable	$3,427,094
Federal Debt & Interest Payable - Intra-governmental	2,237,059
Refunds & Drawbacks	1,051
Other Liabilities	223
Total - Due From the General Fund	$5,665,427
Less Amounts to be Distributed to the General Fund	
Fund Balance	$24
Advances to the Black Lung Trust Fund	6,749
Cash, Foreign Currency and Other Monetary Assets	54,386
Gold & Silver Reserves	9
Loans & Interest Receivable - Intra-governmental (Entity & Non-Entity)	195,047
Accounts Receivable - Intra-governmental	942
Tax/Trade and Other Non-Entity Receivables	25,280
Other Assets	48
Total - Due To the General Fund	$282,485
Due from the General Fund, Net	$5,382,942

In addition to $5,383 billion reflected above, the Department also reports as an entity asset "Due from the General Fund" for $16 billion. The $16 billion represents investments held by ESF and other reporting entities that were eliminated against Federal Debt.

On the balance sheet the Department reported $25,287 million in Tax/Trade receivables. However, only $25,280 million is reported as due to the General Fund. The remaining Tax/Trade receivables reflects amounts which will be paid to others outside the Federal government.

In addition, on the balance sheet the Department reported $166 billion in non-entity loans and interest receivable. However, on the chart above $195 billion is reflected as due to the general fund. The difference is attributed to $29 billion in intra-Treasury loans and borrowings being eliminated on the balance sheet. Because this amount was eliminated, the Department is reporting $29 billion of the $44 billion in entity intra-governmental receivables as a payable to the general fund.

11. Advances to the Black Lung Trust Fund

Advances have been provided to the Black Lung Trust Fund from the General Fund pursuant to 26 USC 9501, and are used to carry out the purposes of this trust fund. The principal and interest on these advances are to be repaid to the General Fund when the Secretary of the Treasury determines that monies are available in the Black Lung Trust Fund for such purposes. Interest is charged from the date funds are advanced to the trust fund. As of September 30, 2000, these advances and accrued interest totaled $6,749 million.

12. Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks

The Department is responsible for safeguarding most of the Federal Government's gold and silver reserves in accordance with 31 USC 5117. The Consolidated Balance Sheet also reflects gold being held in the Federal Reserve Bank of New York.

Gold Reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided under 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the Federal Government. Therefore, all of the Department's certificates issued are payable to the Federal Reserve.
Absent any historical cost records to determine the acquisition cost of the gold and silver over several decades, the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.2929292 per FTO for silver are used to value the entire custodial reserves held by the Mint. As of September 30, 2000, the Gold and Silver Reserves consisted of the following:

	FTO's	Statutory Rate	Statutory Value (Millions)	Market Value per FTO	Market Value (Millions)
Gold	245,262,897	$42.2222	$10,356	$273.65	$67,116
Gold Held by Federal Reserve Banks & in Transit	13,450,413	$42.2222	568	$273.65	3,681
Subtotal - Gold	258,713,310		$10,924		$70,797
Silver	7,075,171	$1.2929292	9	$4.89	35
Total Gold and Silver Reserves			$10,933		$70,832

13. Tax/Trade and Other Non-Entity Receivables, and Related Interest, Net

Tax/trade and other non-entity accounts receivable includes receivables from tax assessments, custom duties, excise taxes, fees, penalties, and interest assessed and accrued, reduced by an estimate for uncollectible amounts. Also included in non-entity receivables are earnings due on monies deposited in Federal Reserve Banks as follows (in millions):

Tax Trade Receivable, Gross	$82,836
Receivable, Deposit of Earnings, Federal Reserve	552
Other Receivable & Interest	1,840
Total Tax/Trade Other Non-Entity Receivables - Gross	$85,228
Less Allowance	(59,941)
Total Tax/Trade and Other Receivables, Net	$25,287

An allowance for doubtful accounts was established for the difference between the gross receivables and the portion deemed collectible. The portion of tax/trade receivables estimated to be collectable and the allowance for doubtful accounts are based on projections of collectibility from a statistical sample of taxes receivable. The Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

IRS Federal taxes receivable constitute the largest portion of the receivables. IRS Federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and the Service, or the courts.

Other Receivables includes certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. Government has not waived or renounced its rights with respect to any of them. All such loans and credits remain due and payable.

This balance includes loans and credits to the Russian Federation that were made under the Lend-Lease program during World War II. U.S. Lend-Lease claims against the former Soviet Union were settled by a 1972 agreement which provided the option to defer up to four scheduled payments. With the dissolution of the Soviet Union, the Russian Federation accepted all of the liabilities of the former Soviet Union, including Lend-Lease debts to the United States. The Russian Federation has not defaulted on any of its Lend-Lease payments to the U.S. It has, however, exercised its deferral options under the 1972 agreement, and rescheduled certain payments under regular Paris Club debt rescheduling agreements in response to imminent default on its external obligations. If Russia were to default on a Lend-Lease payment, the U.S. would be required to revoke Normal Trading Relations (NTR) status with Russia pursuant to a provision in the 1974 Trade Act.

14. Loans Payable & Interest

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 8.75 percent to 9.25 percent, and the maturity dates range from June 30, 2003 to June 30, 2005. As of September 30, 2000, loans payable consisted of $15,337 million owed to Civil Service Trust Fund.

15. Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other exchange stabilization fund operations. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine.

As of September 30, 2000, the amount of certificates outstanding was $3,200 million.

16. DC Pension Liability

On October 1, 1997, the Department took responsibility (assets and liabilities) for certain District of Columbia retirement plans. Pursuant to the Balanced Budget Act of 1997, as amended, (the Act), the Secretary established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), which includes the retirement plans for the District of Columbia's police officers, firefighters, and teachers; and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund).

Treasury assumed responsibility for benefits earned both prior to and after June 30, 1997, for the judges and benefits earned prior to June 30, 1997, for the police officers, firefighters, and teachers. The Act also established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) that shall be used for the accumulation of funds in order to finance obligations of the Federal Government for benefits and necessary administrative expenses under the provision of this Act for police officers, firefighters, and teachers. At the end of each applicable fiscal year, the Secretary shall promptly pay into the Supplemental Fund from the General Fund an amount equal to the annual amortization amount and the covered administrative expenses for the year. The amount paid into the Supplemental Fund from the General Fund during fiscal year 2000 was $181.7 million.

As of September 30, 2000, the assets of the three funds were approximately $4.0 billion, and liabilities were $7.6 billion, resulting in an unfunded liability of $3.6 billion. The actuarial cost method used to determine costs for the Trust and Judicial Retirement funds is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon assumptions selected by the U.S. Treasury. The assumptions used were an annual rate of investment return of 6%, salary increases at an annual rate of 3.5%, and inflation and cost-of-living adjustments at 2.5%. The costs incurred by the plans for the year are included in the Statement of Net Costs.

17. *Federal Debt & Interest Payable*

The Department is responsible for administering the Federal Debt on behalf of the Federal Government. The Federal Debt includes borrowings from the public as well as borrowings from Federal agencies. The Federal Debt managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The Federal Debt as of September 30, 2000 is as follows (in millions):

Intra-governmental

Beginning Balance	$1,952,715
New Borrowings	251,552
Premium/Discount	(4,394)
Interest Payable Not Covered by Budgetary Resources	37,186
Total, Not Covered by Budgetary Resources	$2,237,059

*New Borrowings (Intra-governmental) - represent the net increase in amounts borrowed.

Owed to the public

Beginning Balance	$3,668,380
New Borrowings	2,042,955
Repayments	(2,272,312)
Premium/Discount	(56,150)
Interest Payable Not Covered by Budgetary Resources	44,221
Total, Not Covered by Budgetary Resources	$3,427,094

Debt held by the public approximates the federal government's competition with other sectors in the credit markets. This affects interest rates and private capital accumulation.

In contrast, debt held by Federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest). Debt held by Federal entities does not have any of the economic effects of borrowings from the public. It is not a current transaction of the government with the public; it does not compete with the private sector for available funds in the credit markets. It reduces the need to borrow from the public and so may hold down interest rates. Unlike debt held by the public, debt held by federal entities does not represent an immediate burden on current taxpayers. Rather it is a claim on future resources. The surplus is held in Treasury securities which gives the Federal entities a claim on the Federal Government, equal to the value of those securities. When the securities have to be redeemed, the Department must come up with the cash. Actions that could be taken to meet these cash needs include lowering spending, increasing taxes, and increasing borrowings from the public.

Federal Debt Held by Federal Agencies

Certain Federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the Federal Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the Federal Government. The vast majority are non-marketable securities issued mostly at par value. Most non-marketable debt securities are issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for Government Account Securities (GAS) in fiscal year 2000 was 6.7 percent.

The Federal Debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The investments held, at par value, by the various Federal agencies as of September 30, 2000 are as follows (in millions):

SSA: Federal Old-Age and Survivors Insurance Trust	$893,519
OPM: Civil Service Retirement and Disability Fund *	496,987
DOD: Military Retirement Fund	149,348
HHS: Federal Hospital Insurance Trust Fund	168,859
SSA: Federal Disability Insurance Trust Fund *	113,707
DOL: Unemployment Trust Fund	86,399
HHS: Federal Supplementary Medical Insurance Trust	45,075
FDIC: The Bank Insurance Fund	29,326
DOT: Highway Trust Fund	31,023
OPM: Employees' Life Insurance Fund	22,372
RRB: Railroad Retirement Account	22,628
HUD: FHA Liquidating Account	17,260
VA: National Service Life Insurance Fund	11,804
Nuclear Waste Disposal Fund	17,551
Other Programs and Funds - Consolidated	98,409
Total Federal Debt Held By Federal Entities	$2,204,267

* These amounts include marketable Treasury securities as well as Government Account Series (GAS) securities as follows (in millions):

	GAS Securities	Marketable Treasury Securities	Total
Civil Service Retirement and Disability Fund, Par Value	$496,567	$419	$496,986
Federal Disability Insurance Trust Fund, Par Value	113,667	40	113,707

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Department of Transportation (DOT); Railroad Retirement Board (RRB); Department of Housing and Urban Development (HUD); and Department of Veterans Affairs (VA).

Federal Debt Held by the Public

As of September 30, 2000, Federal Debt held by the Public consisted, at par value, of the following (in millions):

	Par Value	Average Interest Rates	Term
Marketable:			
Treasury Bills	$616,174	6%	1 Year Or Less
Treasury Notes	1,724,263	6%	Over 1 Year - 10
Treasury Bonds	668,228	8%	Over 10 Years
Total Marketable	$3,008,665		
Non-Marketable	430,357	6%	On Demand to Over 10 Years
Total Federal Debt Held by the Public	$3,439,022		

Marketable bills are issued at a discount and repaid at the par amount of the security upon maturity. The average interest rate on a Treasury Bill represents the average effective yield on the security.

Marketable notes and bonds are issued as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value, or at an amount that reflects a discount or a premium. The average interest rate represents the stated interest rate adjusted for any discount or premium. As of September 30, 2000, marketable notes include $81,597 million of Inflation Indexed Notes and the marketable bonds included $33,391 million of Inflation Indexed Bonds.

Non-Marketable securities primarily consist of $184,449 million in U.S. Savings Securities, $153,288 million in securities issued to State and Local Governments, $25,431 million in Foreign Series Securities, and $29,996 million Domestic Series Securities. Non-marketable securities are issued at both par and discounted values. The average interest rate on the non-marketable securities represents the weighted effective yield.

18. Commitments, Contingencies, and Other Risks

The Department is a party in various administrative proceedings, legal actions, and claims brought by or against it. At September 30, 2000, the Department accrued $43 million for these matters which represents management's estimation of probable claims that will be assessed.

Contingencies related to proceedings, actions and claims for which it is reasonably possible that a loss may be incurred are estimated to be approximately $203.3 million.

The Department also identified cases as reasonably possible for which a range of potential loss could not be determined. These cases involve retirement and overtime provisions and criminal investigations. Based on the information provided by legal counsel, in the opinion of management the ultimate resolution of these proceedings, actions, and claims will not materially affect the Department's financial position or results.

Customs counsel has determined that it is probable that a liability will result from a test case, Swisher International v. United States, involving the jurisdictional basis for export refunds relative to Harbor

Maintenance taxes. This decision will allow exporters to file refund requests involving a total of approximately $400 million.

In Cobell v. Norton (formerly Cobell v. Babbitt), Native Americans allege that the Departments of the Interior and Treasury have breached trust obligations with respect to the management of Individual Indian Monies. The plaintiffs have not made claims for specific dollar amounts and their claims are complex. If an unfavorable final decision is rendered against the Government, a material loss could be incurred.

In 1999, the U.S. District Court issued a decision holding that the federal government has been "derelict" in its duties, and issued a remand to the Interior and Treasury Departments so that these Departments could discharge their fiduciary obligations. The Government filed an appeal. In a decision issued on February 23, 2001, the U.S. Court of Appeals held that the relief ordered was within the district court's equitable powers. The Court of Appeals ordered the district court to modify the characterization of some of its findings, but generally affirmed the district court's judgment. Government counsel is reviewing the Court of Appeals decision.

The Department has subscribed to additional capital for certain multilateral development banks (MDBs), portion of which are callable. However, these subscriptions are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Department's subscriptions. As of September 30, 2000 U.S. callable capital in MDBs is as follows (in millions):

	Callable Capital
Inter-American Development Bank	$28,687
Asian Development Bank	5,911
International Bank for Reconstruction & Development	22,642
African Development Bank	1,011
Multilateral Investment Guarantee Agency	198
European Bank for Reconstruction and Development	1,063
North American Development Bank	1,275
Total	$60,787

19. Net Position

As of September 30, 2000, Net Position consisted of the following (in millions):

	Revolving Funds	Trust Funds	Appropriated Funds	Special Funds	Total
Unexpended Appropriations					
Unobligated-Available	$204	$81	$16,240	$0	$16,525
Unobligated-Unavailable	239	4	1,368	0	1,611
Obligations/Undelivered Orders	0	88	39,921	0	40,009
Total Unexpended Appropriations	$443	$173	$57,529	$0	$58,145
Cumulative Results of Operations	28,372	(4,182)	19,712	1,059	44,961
Total Net Position	$28,815	($4,009)	$77,241	$1,059	$103,106

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired. The amount reported for undelivered orders in this note is different than the amount reported on the Combined Statement of Budgetary Resources. The difference is attributed to the Balance Sheet being prepared on a consolidated basis versus the Statement of Budgetary Resources being prepared on a combined basis.

Cumulative Results of Operations represents the net results of operations since inception plus the cumulative amount of prior period adjustments, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and expenses for contingent liabilities. Also included in cumulative results of operations are prior period adjustments. Prior period adjustments primarily involved accounting corrections related to prior year activity.

20. Consolidated Statement of Net Costs & Net Costs of Treasury Sub-organizations

The Department's Consolidated Statement of Net Cost displays information both on a combined and a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules be included in the notes to the financial statements. The supporting schedules provide consolidating information, which fully displays the costs of each sub-organization.

The programs displayed on the Department's Consolidated Statement of Net Cost are equivalent to the missions identified in the Department's FY 1997-2002 Strategic Plan.

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to the Department-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

The Department's FY 1997-2002 Strategic Plan includes a management mission. Costs related to the management mission are not displayed as a separate program. The rationale is that the strategic plan (for fiscal years 1997-2002) does not consider the Management Mission to be programmatic. In addition, SFFAS No. 4, recognizes that "A reporting entity and its segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Cost) as costs not assigned to programs." Accordingly, high level general management and administrative support costs are displayed as costs not assigned to programs. Costs not assigned to programs also include non-production costs (costs that are linked to events other than the production of goods and services) that cannot be assigned to one of the programs.

In addition, Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred on behalf of the Federal Government (payments made to/by the Judgment Fund, the Resolution Funding Corporation, the District of Columbia, etc.). These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve intra-Departmental transactions.

The following combining tables present the gross costs, earned revenue, and net costs for each program by sub-organization of the Department for the year ended September 30, 2000. Also presented are the gross costs, earned revenues, and net costs by sub-organization for the line items, "Cost not Assigned to Programs," for the year ended September 30, 2000 (in millions):

Economic: Promote Prosperous and Stable American and World Economies

Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
	Program/Costs				
Alcohol, Tobacco and Firearms	$6	$51	$57	$0	$57
Bureau of the Public Debt	2	14	16	0	16
Community Development Financial Institutions Fund	6	100	106	1	105
Departmental Offices	9	36	45	0	45
Exchange Stabilization Fund	6	1,878	1,884	1,592	292
Office of the Comptroller of the Currency	55	334	389	402	(13)
Office of Thrift Supervision	15	146	161	143	18
Treasury International Assistance Programs	110	1,295	1,405	0	1,405
Total	$209	$3,854	$4,063	$2,138	$1,925

Financial: Manage the Government's Finances

Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
Alcohol, Tobacco and Firearms	$7	$62	$69	$1	$68
Bureau of Engraving and Printing	59	412	471	476	(5)
Bureau of the Public Debt	60	253	313	9	304
Customs Service	692	1,000	1,692	126	1,566
Departmental Offices	3	23	26	0	26
Federal Financing Bank	3,437	0	3,437	3,371	66
Financial Management Service	143	312	455	87	368
Internal Revenue Service	1,718	6,588	8,306	155	8,151
Mint	68	1,060	1,128	3,703	(2,575)
Total	$6,187	$9,710	$15,897	$7,928	$7,969

Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America

Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
Alcohol, Tobacco and Firearms	$45	$419	$464	$18	$446
Customs Service	357	611	968	65	903
Departmental Offices	54	9	63	0	63
Federal Law Enforcement Training Center	19	102	121	28	93
Financial Crimes Enforcement Network	7	21	28	0	28
Internal Revenue Service	93	535	628	56	572
Secret Service	254	695	949	10	939
Treasury Forfeiture Fund	86	45	131	0	131
Total	$915	$2,437	$3,352	$177	$3,175

Costs Not Assigned to Programs

Suborganization	Intra-Treasury Reimbursable	Other Costs	Total Costs	Earned Revenues	Net Costs Not Assigned
Alcohol, Tobacco and Firearms	$10	$70	$80	$0	$80
DC Pensions Fund	1	223	224	213	11
Departmental Offices	108	273	381	225	156
Franchise Fund	28	135	163	163	0
Inspector General	9	21	30	0	30
Treasury Inspector General for Tax Administration	9	97	106	2	104
Total	$165	$819	$984	$603	$381

Supporting Schedule -- by Suborganization
Net Cost of Operations
Year Ended September 30, 2000
(In Millions)

Suborganization	Net/ Total Program Costs	Net/ Total Unassigned Costs	Total Net Costs
Alcohol, Tobacco and Firearms	$571	$80	$651
Bureau of Engraving and Printing	(5)	0	(5)
Bureau of the Public Debt	320	0	320
Community Development Financial Institutions Fund	105	0	105
Customs Service	2,469	0	2,469
DC Pensions Fund	0	11	11
Departmental Offices	134	156	290
Exchange Stabilization Fund	292	0	292
Federal Financing Bank	66	0	66
Federal Law Enforcement Training Center	93	0	93
Financial Crimes Enforcement Network	28	0	28
Financial Management Service	368	0	368
Franchise Fund	0	0	0
Inspector General	0	30	30
Internal Revenue Service	8,723	0	8,723
Mint	(2,575)	0	(2,575)
Office of the Comptroller of the Currency	(13)	0	(13)
Office of Thrift Supervision	18	0	18
Secret Service	939	0	939
Treasury Forfeiture Fund	131	0	131
Treasury Inspector General for Tax Administration	0	104	104
Treasury International Assistance Programs	1,405	0	1,405
Total	$13,069	$381	$13,450

21. Pricing Policies - Exchange Revenues

A portion of the earned revenue displayed on the Department's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Other than as described below, exchange revenues resulting from work performed for other Treasury sub-organizations or Federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between Federal appropriations is subject to the Economy Act (31 U.S.C. 1535). Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price.

The Federal Law Enforcement Training Center (FLETC) receives appropriated funds to cover the portions of the cost of basic training provided to Federal, state and local law enforcement officers. FLETC charges tuition to recover the full cost of training and labor related to advanced training. FLETC does not recover the full cost of training and labor related to basic training of Federal law enforcement officers. FLETC recovers the full cost of food & lodging and miscellaneous expenses associated with both basic and advanced training. FLETC charges prices, which recover the full cost of training private and foreign law enforcement officers.

22. Total Cost and Earned Revenue by Federal Budget Functional Classification

The following information supports the Statement of Net Cost in the consolidated financial statements of the United States Government.

Budget Functions	Agency Gross Cost	Agency Exchange Revenue	Agency Net Cost
Education and Training	$317	$0	$317
Veterans Benefits	302	0	302
Energy	49	0	49
Commerce and Housing	1,712	521	1,191
Community and Regional Development	109	0	109
Net Interest	370,946	10,064	360,882
International Affairs	3,308	787	2,521
Administration of Justice	4,394	85	4,309
General Government	19,992	7,960	12,032
Total Net Cost	$401,129	$19,417	$381,712

Budget Functions	Gross Cost Public	Gross Cost Governmental	Intradepartmental Eliminations (Negatives)	Interdepartmental Amounts Included in Agency Gross Cost	Agency Gross Cost
Education and Training	$317	$0	$0	$0	$317
Veterans Benefits	302	0	0	0	302
Energy	0	49	0	49	49
Commerce and Housing	1,644	70	(2)	68	1,712
Community and Regional Development	106	6	(3)	3	109
Net Interest	230,231	141,783	(1,068)	140,715	370,946
International Affairs	3,197	112	(1)	111	3,308
Administration of Justice	3,439	1,153	(198)	955	4,394
General Government	12,253	10,053	(2,314)	7,739	19,992
Total Gross Cost	$251,489	$153,226	($3,586)	$149,640	$401,129

Budget Functions	Exchange Revenue Public	Exchange Revenue Governmental	Intradepartmental Eliminations (Negatives)	Interdepartmental Amounts Included in Agency Exchange Revenue	Agency Exchange Revenue
Commerce and Housing	$519	$26	$(24)	$2	$521
Community and Regional Development	0	0	(0)	0	0
Net Interest	0	12,132	(2,068)	10,064	10,064
International Affairs	785	810	(808)	2	787
Administration of Justice	38	163	(116)	47	85
General Government	4,297	4,209	(546)	3,663	7,960
Total Exchange Revenue	$5,639	$17,340	($3,562)	$13,778	$19,417

23. Combining Statement of Changes in Net Position by Sub-organization (In Millions)

	Alcohol Tobacco & Firearms	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	U.S. Customs Service	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Federal Law Enforcement Training Cntr.	Fin. Crimes Enforcement Network	Financial Management Service
Net Cost of Operations	$652	($5)	$360,203	$105	$2,468	$10	$290	$292	$66	$93	$28	$8,770
Non-Exchange Revenues and Financing Sources												
Appropriations Used	615	0	365,359	111	1,987	5	298	0	0	116	26	8,743
Revenue from Forfeiture	0	0	0	0	0	0	0	0	0	0	0	0
Interest Revenue	0	0	0	0	0	0	0	0	0	0	0	1
Imputed Financing Sources	24	10	0	0	102	0	7	0	0	3	1	10
Financing Sources for Accrued Interest & Discount on the Debt	0	0	10,966	0	0	0	0	0	0	0	0	0
Transferred in	13	0	0	0	47	0	0	0	0	7	0	0
Transferred out	0	0	0	0	0	0	0	0	0	0	0	0
Transferred Out to the General Fund of the Treasury	0	0	(16,133)	0	0	0	0	0	0	0	0	(1)
Other	0	0	2	0	295	1	0	0	0	0	0	11
Total Financing Sources	652	10	360,194	111	2,431	6	305	0	0	126	27	8,764
Net Results of Operations	0	15	(9)	6	(37)	(4)	15	(292)	(66)	33	(1)	(6)
Prior Period Adjustments	0	0	0	0	0	38	4	0	0	9	0	0
Net Change in Cumulative Results of Operations	0	15	(9)	6	(37)	34	19	(292)	(66)	42	(1)	(6)
Increase (Decrease) in Unexpended Appropriation	(20)	0	2	5	(35)	177	17	0	0	(7)	3	(9)
Change in Net Position	(20)	15	(7)	11	(72)	211	36	(292)	(66)	35	2	(15)
Net Position -- (10/1/1999)	128	578	28	130	1,696	(3,764)	186	27,612	65	186	4	131
Net Position -- (9/30/2000)	$108	$593	$21	$141	$1,624	($3,553)	$222	$27,320	($1)	$221	$6	$116

Notes

23. Combining Statement of Changes in Net Position by Sub-organization (continued)

	Franchise Fund	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	U.S. Secret Service	Treasury Forfeiture Fund	Treasury Inspector General for Tax Admin.	Treasury International Assistance Programs	Combined Total	Eliminations And Adjustments	**Consolidated**
Net Cost of Operations	$0	$31	$8,723	($2,575)	($13)	$18	$939	$132	$104	$1,405	$381,736	($24)	**$381,712**
Non-Exchange Revenues and Financing Sources													
Appropriations Used	0	30	8,344	0	0	0	887	0	104	(4,818)	381,807	6	**381,813**
Revenue from Forfeiture	0	0	0	0	0	0	0	93	0	0	93	0	**93**
Interest Revenue	0	0	0	0	0	0	0	24	0	0	25	(25)	**0**
Imputed Financing Sources	2	0	396	8	15	5	50	0	0	0	633	(5)	**628**
Financing Sources for Accrued Interest & Discount on the Debt	0	0	0	0	0	0	0	0	0	0	10,966	0	**10,966**
Transferred in	0	0	61	0	0	0	29	0	8	138	303	(84)	**219**
Transferred out	0	0	(109)	0	0	0	0	(80)	0	0	(189)	84	**(105)**
Transferred Out to the General Fund of the Treasury	0	0	0	(2,281)	0	0	0	0	0	(150)	(18,565)	(1)	**(18,566)**
Other	0	0	0	0	0	0	0	(1)	0	0	308	9	**317**
Total Financing Sources	2	30	8,692	(2,273)	15	5	966	36	112	(4,830)	375,381	(16)	**375,365**
Net Results of Operations	2	(1)	(31)	302	28	(13)	27	(96)	8	(6,235)	(6,355)	8	**(6,347)**
Prior Period Adjustments	0	(1)	(0)	0	25	0	3	0	0	0	78	(75)	**3**
Net Change in Cumulative Results of Operations	2	(2)	(31)	302	53	(13)	30	(96)	8	(6,235)	(6,277)	(67)	**(6,344)**
Increase (Decrease) in Unexpended Appropriation	0	(1)	(179)	0	0	0	(46)	0	8	2,158	2,073	(1)	**2,072**
Change in Net Position	2	(3)	(210)	302	53	(13)	(16)	(96)	16	(4,077)	(4,204)	(68)	**(4,272)**
Net Position -- (10/1/1999)	13	5	2,113	447	162	138	162	325	0	76,960	107,305	73	**107,378**
Net Position -- (9/30/2000)	$15	$2	$1,903	$749	$215	$125	$146	$229	$16	$72,883	$103,101	$5	**$103,106**

24. Other Non-Exchange Revenue and Financing Sources

Non-exchange revenue primarily includes the proceeds from the liquidations of assets transferred from the District of Columbia the Treasury's DC Pension Funds that are in excess of the 1999 estimated value of the investment transferred. It also includes certain user fees collected by the U.S. Customs Service.

25. Adjustments to Budgetary Resources Available At the Beginning of the Year & Other Information - Statement of Budgetary Resources

Federal agencies are required to disclose additional items related to the Statement of Budgetary Resources. The following table provides this information as required by OMB in Form and Content, OMB Bulletin 97-01, as amended, (in millions):

Net Amount of Budgetary Resources Obligated for Undelivered Orders	$6,555
Available Borrowing and Contract Authority at the end of the period	$5,715
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	$258

26. Existence, Purpose, and Availability of Permanent, Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in some instances, reported as a custodial activity of Treasury. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not available for use by the Department in its operations. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department receives permanent and indefinite appropriations to make payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. It includes appropriations provided to make other disbursements on behalf of the Federal Government including payments made to various individuals as the result of certain claims and judgement rendered against the United States.

27. Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

Included in cumulative results of operations for special funds is $857 million that represents Treasury's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, and to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. In addition, the Department is required to maintain $30 million in its User Fees Account. Part of the passenger fees in the user Fees Account, totaling approximately $640 million as of September 30, 2000 is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Appropriation Acts.

In the trust fund balance, $110 million results from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Treasury relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

28. Collections of Federal Revenue

The Department collects the majority of the Federal Revenue from income and excise taxes and duties on imported goods. Collection activity, by revenue type and tax year was as follows for the fiscal year ended September 30, 2000 (in millions):

	Collections Received FY 2000	Tax Year 2000	1999	1998	Prior Years
Individual Income & FICA Taxes	$1,764,269	$1,132,303	$612,514	$11,562	$7,890
Corporate Income Taxes	235,393	156,447	70,225	485	8,236
Estate and Gift Taxes	29,722	406	25,735	1,629	1,952
Excise Taxes	70,194	51,376	18,314	106	398
Duties	20,556	20,556	0	0	0
Fees, and Licenses	2,069	2,069	0	0	0
Unemployment Taxes	6,986	4,984	1,890	37	75
Railroad Retirement Taxes	4,762	3,619	1,139	1	3
Federal Reserve Earnings	32,293	25,089	7,204	0	0
Fines, Penalties, Interest & Other Revenue	3,414	2,936	478	0	0
Total	$2,169,658	$1,399,785	$737,499	$13,820	$18,554

Amounts reported for Corporate Income Taxes, in Tax Year 2000 include corporate taxes of $7 billion for tax year 2000. Individual income and FICA taxes, includes $47 billion in payroll taxes collected from other federal agencies. Of this amount, $10 billion represents the portion paid by the employers.

29. *Federal Tax Refund Activity*

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal year ended September 30, 2000 (in millions):

	Refunds Disbursed FY 2000	Tax Year 2000	1999	1998	Prior Years
Individual Income & FICA Taxes	$161,369	$998	$148,507	$8,582	$3,282
Corporate Income Taxes	31,054	1,415	10,426	6,925	12,288
Estate and Gift Taxes	772	8	191	293	280
Excise Taxes	766	270	369	52	75
Duties	1,232	512	284	118	318
Fees, and Licenses	1	1	0	0	0
Unemployment Taxes	118	1	87	10	20
Railroad Retirement Taxes	11	0	2	3	6
Total	$195,323	$3,205	$159,866	$15,983	$16,269

Indvidual income & FICA taxes includes EITC and child tax credit refunds. The EITC was originally authorized by the Tax Reduction Act of 1975 (Public Law 94-12) and made permanent by the Revenue Adjustment Act of 1978 (Public Law 95-600). The EITC is a special credit for taxpayers who work and whose earnings fall below the established allowance ceiling. Qualified taxpayers can receive partial credit in advance in each paycheck. In FY 2000 the Department issued $26.1 billion in EITC refunds, of which $81 million was applied to Advance EITC. An additional $5.1 billion of EITC refunds were applied to reduce taxpayer liability. The child credit was originally authorized by the Taxpayer Relief Act of 1997 (Public Law 105-34). The child tax credit is a special credit for taxpayers who work, whose earnings fall below the established allowance ceiling, and who have a qualifying child. In FY 2000 the Department issued $809 million in child tax credit refunds. An additional $19.2 billion of child tax credit refunds were applied to reduce taxpayer liability.

30. Amounts Provided to Fund the Federal Government

Revenue collected by the Department is deposited into the General Fund. The Department transferred approximately $726 billion from the General Fund to Government Trust Funds (GTF), which are available for expenditure by the responsible program agencies. The Department is responsible for managing GTFs, investing all excess trust fund collections, and liquidating securities as funds are needed. The GTFs are reported on the financial statements of the responsible program agencies.
During FY 2000 the distributions to the GTFs were as follows (in millions):

Trust Fund	Disposition of Treasury Net Tax Collections
Federal Disability Insurance Trust Fund	$70,755
Federal Hospital Insurance Trust Fund	150,546
Federal Old Age & Survivors Trust Fund	430,688
Unemployment Trust Fund	27,606
Highway and Mass Transit Trust Fund	34,960
Airport and Airway Trust Fund	9,930
Hazardous Superfund	5
Other Trust Funds	1,987
Total Trust Funds	$726,477

Social Security Tax Collections

The amounts disclosed above for the Social Security Trust funds (Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, and Federal Old Age & Survivors Trust Fund) are based upon estimates provided by the Social Security Administration (SSA). Treasury reviews the estimates for reasonableness. SSA later certifies actual tax collections.

Excise Tax Collections

The Department estimates monthly excise tax collections utilizing various economic models. The Department also confers with the Council of Economic Advisors and the Office of Management and Budget in developing these estimates. The estimated amounts are transferred to GTFs. Estimates are needed because taxpayers are not required by law to identify the specific taxes included in their payments. After taxpayers provide quarterly tax returns with the details of the specific taxes, IRS certifies actual collections. The Department then adjusts the GTFs for the differences between the estimates and collections.

The amounts disclosed above are based on actual collections for three quarters and estimates for the fourth quarter for those trust funds which receive excise tax collections (i.e. Highway and Mass Transit Trust Fund, Airport and Airway Trust Fund, and certain other trust funds).

Part 3

Management Controls

The Secretary's Letter of Assurance

Consistent with the provisions of the Government Management Reform Act of 1994, as well as with the Reports Consolidation Act of 2000, the Department of the Treasury has consolidated several statutorily-required reports into its Accountability Report. The results of the Department's evaluations under FMFIA for the period ending September 30, 2000 are included in this Accountability Report. Reporting under the Federal Financial Management Improvement Act (FFMIA) on the adequacy of financial management systems is also included in this section of the report.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Department, except as noted below, can provide reasonable assurance that the objectives of Section 2 of FMFIA (internal controls) have been achieved for the covered period. The Department, taken as a whole, is not able to provide reasonable assurance that the objectives of Section 4 of FMFIA (financial management systems) have been achieved for the covered period. Similarly, due to the same weaknesses in financial management systems, the Department cannot state that it is in substantial compliance with the FFMIA for the covered period.

Departmentwide, there were 32 material weaknesses as of September 30, 2000. The majority of these are concentrated in the Internal Revenue Service (15) and Departmental Offices (6). Summary information on each material weakness is provided by bureau within this section of the Accountability Report.

The Department began FY 2000 having 49 material weaknesses. The net reduction of seventeen material weaknesses resulted from 18 actual closures and only one new material weakness being identified. While I recognize the progress that has been made, I plan to use this report on the Department's prior activities as a foundation to build upon for continued improvement during FY 2001. I am confident that Treasury's progress will continue in FY 2001.

Sincerely,

Paul H. O'Neill

Federal Managers' Financial Integrity Act & Federal Financial Management Improvement Act Compliance

Overall Results

During FY 2000, Treasury had a net decrease of seventeen (17) material weaknesses. That is, while only one new material weakness was identified during FY 2000, the Department, as a whole, was able to close eighteen weaknesses during the year. A total of 32 material weaknesses was outstanding as of September 30, 2000.

For the readers' benefit, the management control objectives under FMFIA are to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Section 2 deficiencies deal with the weaknesses in overall adequacy and effectiveness of management controls within the agency, while Section 4 deficiencies deal with the non-conformances with government-wide requirements of the agency's financial management systems.

FMFIA Section 2, Management Controls

Of the 482 internal control weaknesses identified since the inception of the program (fiscal years 1983 through 2000), 461 have been corrected and closed, leaving only 21 unresolved items as of September 30, 2000. None of the 21 unresolved weaknesses were identified during the FY 2000 review process. Many of the 21 unresolved items identified from prior years represent complex, systemic weaknesses, which by their nature require a protracted corrective action period. We have closed fourteen management control weaknesses in FY 2000.

Number of Material Weaknesses

Period Reported	Number Reported For the First Time	For That Year, Number Corrected	For That Year, Number Still Pending
Prior Years	451	438	13
1998 Report	17	14	3
1999 Report	14	9	5
2000 Report	0	0	0
Total	482	461*	21

* Of the total number corrected 12 were corrected in 2000.

FMFIA Section 4, Financial Management Systems

Of the 499 accounting systems non-conformances identified since the beginning of the program, 11 remain unresolved as of September 30, 2000. One new non-conformity item has been reported for DO. Four remaining unresolved weaknesses were identified during the FY 1999 review process. In order to achieve systems modernization, six of the remaining non-conformances are being resolved through the installation or modification of complex, computerized systems. Overall, we closed six financial systems non-conformances in FY 2000.

Number of Material Weaknesses

Period Reported	Number Reported For the First Time	For That Year, Number Corrected	For That Year, Number Still Pending
Prior Years	471	466	5
1998 Report	22	21	1
1999 Report	5	1	4
2000 Report	1	0	1
Total	499	488*	11

* Of the total number corrected 6 were corrected in 2000.

Federal Financial Management Improvement Act (FFMIA)

Among other things, the FFMIA mandates that agencies ". . . implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States government Standard General Ledger at the transaction level." FFMIA also requires that remediation plans be developed for any entity that is unable to report substantial compliance with these requirements.

Based on the results of FY 1997 financial statement audits and management assessments, it was determined that four bureaus (Internal Revenue Service, Financial Management Service, U.S. Customs Service, and the U.S. Mint) were not in substantial compliance with these requirements. Accordingly, the Department oversaw the development of remediation plans at these bureaus, and submitted remediation plans to the Office of Management and Budget in August 1998. In subsequent Fiscal Years, it was determined that non-conformances exist at the U.S. Secret Service (1998), Departmental Offices (1999), and the Office of the Comptroller of the Currency (1999). In the fall of 1998, the U.S. Mint successfully implemented its Consolidated Information System (COINS) as scheduled, effectively completing its remediation plan.

This year, the Financial Management Service corrected all of its material weaknesses related to its financial statements, and the Service's bureau financial management systems are now in substantial compliance with FFMIA. In its role as the manager of Government-wide accounting programs, the Service has determined that the EDP general controls over financial management systems supporting those programs remain in noncompliance with the Act. During FY 2000, the Department continued working with the non-conforming bureaus in order to refine remediation plans as necessary and to expedite the realization of substantial conformance.

Summary of Open FMFIA Material Weaknesses and FFMIA Compliance
As of September 30, 2000

Bureau	Number of Material Weaknesses for FMFIA Section 2			Number of Material Instances of Non-Conformance For FMFIA Section 4			Grand Total	Substantial Compliance with FFMIA?
	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total		
ATF	0	0	0	0	0	0	**0**	Yes
BEP	0	0	0	0	0	0	**0**	Yes
BPD	0	0	0	0	0	0	**0**	Yes
CDFI	0	0	0	0	0	0	**0**	Yes
USCS	2	0	2	1	0	1	**3**	No
DO	1	0	1	1	1	2	3	No
DC Pension Funds	2	0	2	0	0	0	**2**	Yes
EOAF	0	0	0	1	0	1	**1**	No
FLETC	1	0	1	0	0	0	**1**	Yes
FMS –Bureau	0	0	0	0	0	0	**0**	Yes
FMS – Government-wide	3	0	3	1	0	1	**4**	No
Treasury Franchise Fund	0	0	0	0	0	0	**0**	Yes
IRS	11	0	11	4	0	4	**15**	No
Mint	0	0	0	0	0	0	0	Yes
OCC	0	0	0	1	0	1	**1**	No
OTS	0	0	0	0	0	0	**0**	Yes
USSS	1	0	1	1	0	1	**2**	No
Total	**21**	**0**	**21**	**10**	**1**	**11**	**32**	**10 7**

Recap. of Material Weaknesses (MWs):	Section 2	Section 4	Total
Balance at the Beginning of FY00:	33	16	49
New MWs During the FY00:	0	1	1
Closed during the FY00:	-12	- 6	-18
Balance at the End of FY00:	21	11	32

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
CUSTOMS (CS-94-02)	Inability to timely restore critical systems; Lack of a disaster recovery plan. Deficiencies impair Customs' ability to respond to a disruption in business operations.	Short-term action – through 7/01 – Upgrade telecommunications facilities. Long-term action– to be determined – Revise the Business Impact Analysis and Disaster Recovery Plans to address additional applications; and Revise the investment management process to include Business Impact Analysis considerations.
CUSTOMS (CS-95-01)	Inappropriate access to ADP files, inadequate control of emergency change process and inappropriate separation of duties. Access capabilities and control mechanisms for critical applications and major support systems need improvement.	Short-term action – through 6/01 – implement a formal procedure for removing physical and systems access for departed contractor personnel; develop a schedule for implementing a new configuration management tool to control the software changed process after consideration of a contractors report; and implement revised procedures governing emergency change controls. Long-term action – to be determined – Complete migration to the new change control tool.
Departmental Offices (DO-98-04)	EDP general controls designed to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations need to be strengthened at IRS, Customs and FMS.	Short-term action – through 12/2001 – The Treasury's Chief Information Officer (CIO) has expanded oversight of bureaus on systems security issues to ensure that the corrective actions at each bureau are achieved in a timely manner. The following plans are to be accomplished: 1) Revise draft policy requiring bureaus to establish IT Security Review program; 2) the Office of Information Systems Security staff to review and revise draft policy within CIO organization; and 3) plan to publish approved policy.
DC Pension (DCP- 98-03)	There are shortcomings in the District's Office of Pay and Retirement Services.	Short-term action – through 9/2001 – 1) Publish final regulations prescribing the methods for splitting the benefit obligations between the Federal and District Government; 2) Issue a Treasury privacy act system of records notice for District pension records; and 3) Refine procedures to calculate the District's administrative expenses that include billable processes and cost breakdowns for direct and indirect costs associated with the Federal workload. Long-term action – through 12/2001 – 1) Develop a procedure manual for use by examiners in case processing; 2) Analyze current method for determining continued eligibility of fundamental controls and standards for segregation of duties; 3) Resolve unique issues, e.g., COLA effective date and procedures for paying interest on deposits that relate to the judges; and 4) Develop and implement a strategy for improving the quality of employment records received from District personnel offices.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
DC Pension (DCP-98-04)	Because of its age, the District's automated pension system contains overall unacceptable risk and must be replaced. An interface with the District's payroll system must also be developed.	Short-term action – through 3/2001 – 1) Work with the District to develop an interface between the new payroll system and the new pension system to ensure that the new pension system contains accurate baseline Individual Retirement Record (SF 2806) data and that the data is correctly updated every pay cycle; 2) Tailor the COTS product to meet Treasury needs; 3) Develop training requirement and procedures for system use; 4) Prepare all required system documentation and disaster recovery plans; and 5) Implement new automated replacement system to process April 2001 benefits. Long-term action – through 9/2001 – To be determined.
Federal Law Enforcement Training Center (FLETC-91-01)	An environmental problem exists at the FLETC Glynco, Georgia outdoor firearms ranges.	Long -term action – through 12/2001 – Complete the environment restoration of the area and reconstruction of the Outdoor Firearms Ranges through the FLETC's Remedial Plan.
FMS (FMS-99-09, reported in FY 1999 as FMS-98-06)	The Federal Government is unable to properly identify and eliminate transactions between Federal government entities and agency adjustments that affected net position.	Short-term action – through 1/2001 – CFOC Intragovenmental Transactions Workshop: Develop a webbased application that will support the confirmation process by partner agencies for fiduciary transactions by 1/31/2001.
FMS (FMS-99-10, reported in FY 1999 as FMS-98-07)	The Federal Government cannot ensure that the information in the financial statement of the U.S. Government is properly and consistently compiled and reconciles to agency's audited financial statements.	Short-term action – through 1/2001 – Corrective actions for FY 2000 were completed. Long -term action – to be determined – Once the FY 2000 audit has been completed, FMS will re-evaluate its results and determine the appropriate corrective actions in FY 2001.
(FMS-99-11, reported in FY 1999 as FMS-98-08)	The Federal Government lacks a process to obtain information to effectively reconcile the reported excess of revenue over net cost with the budget surplus.	Short-term action – through 1/2001 – Corrective actions for FY 2000 were completed. Long -term action – to be determined – Once the FY 2000 audit has been completed, FMS will re-evaluate its results and determine the appropriate corrective actions in FY 2001.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-83-01)	Property Management – IRS has identified weaknesses in the procedures and control over the information, use and accountability of capitalized property.	Short-term action – through 4/2001 – 1) Establish a Single Point inventory Function (SPIF) to transition new ADP property management process; 2) Deploy SPIF units in each Service Center, Computing Center, and District Office to ensure accuracy of FY 2000 INOMS inventory; and 3) Replace IRS' current inventory system with a modernized system. Long -term action – through 10/2003 – Enhance the current IRS financial system to record Property and Equipment (P&E) and capital leases as assets when purchased and generate detailed P&E records.
IRS (IRS-88-01)	Resolving IRS' workload of Tax Assessments and prioritizing Collectible Assessments.	Short-term action – through 12/2001 – Advance development and utilization of the Collection Inventory Delivery System, including the Financial Analysis Program (FAP), to improve delinquent tax case resolution and risk based tax case management and to direct cases within IRS where they can be optimally worked. Long-term action – through 1/2004 – Advance development and utilization of the Examination Customer Relationship Management (CRM) Systems.
IRS (IRS-94-03)	A material weakness exists in the Internal Controls over Telecommunications Costs.	Short-term action – through 6/2001 – 1) Implement new calling card procedures, including written managerial approval required for all calling card orders; 2) Replace the Billing Analysis Reporting Tool (BART) with the Telecommunication Asset Tool (TAT) application; and 3) Implement new quarterly TAT analysis procedures to focus on: potential waste, fraud, and abuse of Telecommunications resource; wasted resources and lost productivity of staff time spent on personal phone calls. Long-term action – through 9/2001 – Conduct annual managerial review of calling cards.
IRS (IRS-95-02)	Forms related to Tax-Exempt Bond issuances are not being processed.	Short-term action – through 4/2001 – Resolve entity and posting problems to Master File at Philadelphia Service Center.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-95-03)	Tax Processing Systems need to be replaced.	Short-term action – through 6/2001 – Implement Primary Telephone Call Routing and Management. Mid-term action - through 3/2003 – Continue Software design activities for integrating Financial Reporting Release (FRR) data into the Payment Information Database (PIDB) to create the payment source document database to support CFO initiatives. Long-term action – through 1/2010 – Complete Implementation of customer service and corporate data integration (phase I) through Compliance (Phase II), corporate process (Phase III), compliance & financial reporting systems (Phase IV), and submission processing (Phase V).
IRS (IRS-97-02, 97-03, 97-04, & 97-05)	Security Issues -- IRS has identified various security issues with respect to the Computing Center (97-02), District Offices (97-03), Service Centers (97-04) and other Facility-type security (97-05). Weaknesses were identified in the area of physical security, logical security, data communications management, risk analysis, quality assurance, internal audit and security, security awareness, and contingency planning.	Long-term action – through 4/2003 – Conduct visitations of number of field offices to review certification compliance for sensitive system certification weakness. The Office of Systems Standards and Evaluation is working with the district offices to mitigate their security weaknesses. The approach includes base lining the condition of security, and developing and implementing action plans to improve the district offices' continuity of operations plans, physical security, logical security, communications security, personnel and administration security, operating practices, and software quality assurance activities.
IRS (IRS-99-01)	Filing Fraud in Earned Income Tax Credit (EITC) and other filing fraud has been identified by GAO as a High Risk issue. In addition, GAO/TIGTA's reports have addressed EITC, related filing fraud issues and potentially erroneous refunds being generated from misapplied EITCs.	Short-term action – through 12/2001 – Compare Tax Year (TY) 1998 overclaim rate with the 1997 baseline to determine change. Long-term action – through 12/2002 – Use the Department of the Health Human Resources/Social Security Administration data as a filter to identify potential compliance problems, e.g., with SSNs, dependents, custodial /residential issues, etc., and compare TY 2000 overclaim rate with the 1997 baseline to determine change.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS 99-02)	Supporting Documents for Unpaid Assessments were not located during the 1996 and 1997 annual financial statement audits by GAO.	Short-term action – through 9/2001 – Implement Request for Information Services to add and receive the current criteria for annual Collection Statute Expiration Date extract program that will look for open collections statures and identify documents that need to be held longer than the initial 6-year period. Long-term action – through 1/2002 – Develop a strategic approach to evaluate current modernization plans in relation to supporting management information system (i.e. document).
United States Secret Service (SS-97-01)	No automated system for tracking real Property; Property Accounting Management System (PAMS) has numerous errors and reconciliations are not performed.	Short-term action – through 1/2001 – Correct PAMS errors; research exception reports; and perform reconciliations. Publish inventory procedures in Administrative Manual by 1/2001.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL NON-CONFORMANCES	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
CUSTOMS (CS-93-01)	Core Financial Systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.	Short-term action – through 9/2001 – Implement first phase of software deployment of the SAP R/3 software package. Long-term action – through 9/2006* – 1) Implement full software deployment of SAP R/3; 2) Pilot test of the initial version of the subsidiary ledger; 3) Continue testing and refinement of the basic version of the subsidiary ledger; and 4) Add transaction specific functionality (i.e., debit voucher and voluntary tender functions and others) phases 3,4, & 5 [All items from 2) Through 4) were formerly tracked under ACE] * Contingent on funding
Departmental Offices (DO-99-01)	The Department's Financial Management Division's accounting services are provided by the Center for Applied Financial Management (CAFM). The issue is the lack of emergency back-up capabilities.	Short-term action – through 5/2001 – FMD will arrange to receive its system support from the Bureau of Public Debt, which has backup capabilities. Testing is to be completed by 5/2001.
Departmental Offices (DO-00-01)	Treasury Communications System (TCS) has no emergency back-up facility and steps should be taken immediately to create a secondary Treasury Communication Center that satisfies the need for emergency back-up and adequate physical security.	Short- term action – through 9/2001 –The Office of Customer Service, Infrastructure and Operations (OCSIO) is working with the TCS prime contractor to solicit proposals from existing TCS subcontractors for emergency backup services and physical security. Long -term action – To be determined –
Executive Office of Asset Forfeiture (AF-98-02)	The Fund's general ledger is currently not used to track all balances and transactions that comprise the Fund, such as accounts receivable, liens and mortgages payable, forfeited property and deferred revenue, and seized currency and its offsetting liability.	Long -term action – through 9/2003 – Develop integration between FASTRAK (the single inventory system) and the Fund's General Ledger.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL NON-CONFORMANCES	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
FMS (FMS-99-02, reported in FY 1999 as FMS-98-09)	General computer control weaknesses place FMS systems and data at significant risk. The control weaknesses include an ineffective entity-wide security program, lack of strong access controls and vulnerabilities related to FMS systems supported by the Federal Reserve Bank.	Short-term action – through 12/2001 – FMS will resolve 84 detailed findings related to access controls and application controls. These findings are distributed among 7 data centers. Closure is anticipated by end of 2002.
IRS (IRS-93-01)	Management of Operating Funds: IRS' internal controls were not adequate to provide a reasonable basis for determining compliance with laws governing the use of budget authority or reasonable assurance that its disbursements were appropriate.	Short-term action – through 1/2001– Implementation of Postage Budget Decentralization and Project tracking to monitor commitment, obligations, and expenditures related to postage/transportation budgets. Closure is anticipated by end of 1/2001.
IRS (IRS-94-01)	Erroneous Restricted Interest. Current system limitations require manual computations, which result in a high number of erroneous assessments.	Short-term action – through 3/2001 – 1) Take initiatives to improve the accuracy rate of interest calculations; 2) After the baseline is established, improve the accuracy rate of interest calculations by 2%; 3) Complete development of the Total Interest Program System (TIPS) Long-term action – through 8/2001 – 1) Complete an occupational study on the relative grade level of complex interest tax examiners; 2) Establish a baseline for accuracy rates accomplished base on reviews performed and a permanent measurement system; 3) Take initiatives to improve the accuracy rate of interest calculations; and 4) After the baseline is established, improve the accuracy rate of interest calculations by 2%.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2000

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-95-01)	Financial Accounting for Revenue: Detailed transactional data is needed to support custodial financial reporting.	Short-term action – through 6/2001 – 1) Develop Internal Management Plan for the Integrated Financial System. Long-term action – through 1/2009 – 1) Deploy Custodial Sub ledgers Project—IFS Collections Subledger systems; 2) Implement the Administrative Management Project and the Human Resources Project; and 3) Develop multi-phased Payment Information Data Base projects, and continue design, development and deployment of modernized operating systems to replace legacy systems.
IRS (IRS-99-01)	Financial Statements: Administrative Activity issues including: 1) failure to reconcile the administrative fund balance with Treasury in 1998; 2) lack of sufficient subsidiary records to support account balances in the general ledger; 3) failure to resolve suspense account items; and 4) lack of ability to reliably prepare four of the six financial statements.	Short-term action – through 2/2001– Establish valid account balances, and complete FY 2000 Financial Statements and submit to Treasury Department by January 14, 2001. All other milestones under this material weakness have been completed.
OCC (OCC-99-02)	OCC's financial management systems currently do not comply with Federal financial management systems requirements and the US Government Standard General Ledger at the transactional level.	Short-term action – through 9/2001 – OCC began the process to procure a new JFMIP compliant financial management system in September 1999. A system was selected in December 2000. This system is scheduled to go live on October 1, 2001. OCC had Taken temporary steps during 2000 to compensate for the limitations of its current system and to ensure that the information reported is in accordance with Federal GAAP and incorporates the SGL.
U.S. Secret Service (SS-97-01, reported in FY 1999 as SS-96-01)	Secret Service does not have reliable Seized Property Systems.	Short-term action – through 12/2000 – Modify system to provide reports of beginning balances, ending balances and analysis of changes, and with the assistance of the Financial Management Division, ensure the new system meets JFMIP requirements.

SUMMARY OF MANAGEMENT REPORT ON FINAL ACTIONS ON AUDIT RECOMMENDATIONS

Introduction

The Inspector General Act Amendments of 1988 (the Act), Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential benefits. The Treasury Office of the Inspector General (OIG) continues to issue its semiannual reports as standalone documents. However, beginning with the FY 1998 Accountability Report, the Department discontinued producing the standalone Secretary's Semiannual Report to Congress and instead consolidated and annualized all relevant information for inclusion in the Accountability Report. This action is in accordance with provisions of the Government Management Reform Act, particularly as it pertains to the Governmentwide effort to streamline reporting. In addition, the Treasury Inspector General for Tax Administration (TIGTA) was created by statute in January 1999 to perform the internal audit function for the Internal Revenue Service, with the OIG having continuing responsibilities regarding the rest of the Treasury organization. The information contained in this section of the Accountability Report represents a consolidation of information provided separately by the OIG and TIGTA organizations.

Departmentwide Management Control Program Activities

During FY 2000, the Department continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the OIG and TIGTA organizations. Various short-term improvements were made to the Inventory Tracking and Closure System (ITCS), which is used for tracking all open audit findings, and the range of management information reports extracted from that system was increased significantly. Departmental oversight of bureau management control program activities, as well as communication and coordination with the bureaus in general, was strengthened through a combination of: (1) on-site visits/reviews with bureau control personnel; (2) periodic management control program forums involving key persons from the OIG, TIGTA, all bureaus and program areas, and the Department; and (3) the issuances of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Deputy Secretary, bureau heads, bureau CFOs and other key personnel. Finally, with respect to the resolution of recommendations in audit reports that identify monetary benefits, the Department regularly reviews progress made by the bureaus in realizing those benefits, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

Included in the summary figures are a number of factors that are generally grouped into three categories: Disallowed Costs, Better Used Funds, and Revenue Enhancements.

Disallowed Cost - It is a questioned cost that management has sustained, or has agreed would not be charged to the Government by a contractor.

Funds Put to Better Use - It is sometimes referred to as "Better Used Funds" which are amounts cited in an audit report recommendation which could, according to the audit report, be used more efficiently if management were to take actions to implement and complete the recommendation. Possible planned corrective actions which may be used to reallocate these funds more efficiently might involve: reducing outlays to contractors; avoiding unnecessary expenditures noted in pre-award reviews of contract agreements, or avoiding costs with the implementation of recommended operational improvements. De-obligating funds from programs or operations that are not as efficient or productive as they once were or were planned to be, as well as implementing any other savings which are specifically identified, can also be classified as "Better Used Funds."

Revenue Enhancements - A revenue enhancement is an action recommended in an audit report which would, if implemented, enhance the General Fund receipts of the Federal Government, usually without having any budgetary impact on any of the Treasury Department's appropriations. These revenue enhancements are a key element in the budgetary issues of the revenue collecting bureaus (IRS, ATF, and USCS). If a bureau relies on the revenue collected for maintenance of those revenue producing areas, the revenue enhancements that are implemented can have a significant impact on the ability of these areas to operate efficiently while still providing the services that generate the revenue to the bureau.

Management Decision - The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions considered to be necessary.

Report Summary and Highlights

The statistical data in the following summary table and charts represents the Department's audit report activity for the period from October 1, 1999 through September 30, 2000. The data reflects information on reports that identified potential monetary benefits that were issued by the OIG, as well as those issued by TIGTA.

AUDIT REPORT ACTIVITY WITH POTENTIAL MONETARY BENEFITS
FOR WHICH MANAGEMENT HAS IDENTIFIED CORRECTIVE ACTIONS
(OIG and TIGTA)
October 1, 1999 through September 30, 2000
(Dollars in Millions)

	Disallowed Costs		Better Used Funds[1]		Revenue Enhancements[2]		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance	8	$.4	6*	$190.8	4*	$50.8*	18*	$242.0*
New Reports	10	7.7	14	152.7	13	460.2	37	620.6
Total Reports	18	8.1	20	343.5	17	511.0	55	862.6
Reports Closed	(13)	(7.7)	(5)	(51.2)	(9)	(115.8)	(27)	(174.7)
Ending Balance	**5**	**.4**	**15**	**292.2**	**8**	**395.3**	**28**	**687.9**

1. This category does not include two reports, projecting an additional $45.3 million, with which IRS management disagrees with TIGTA.

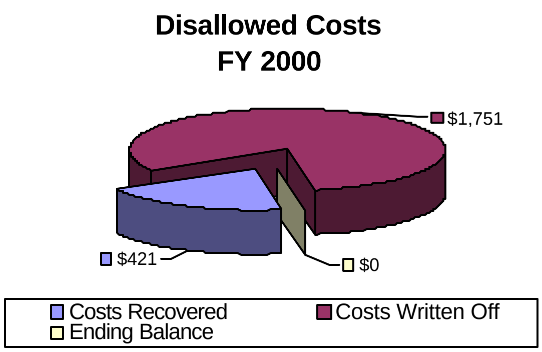
2 This category includes two reports, $13.973 million, with which IRS management disagrees with TIGTA. But, there are four additional reports not included in this category, projecting an additional $947.3 million, with which IRS management disagrees with TIGTA.
(Currently, the Department is researching these reports to resolve the disagreements in [1] and [2] above.)

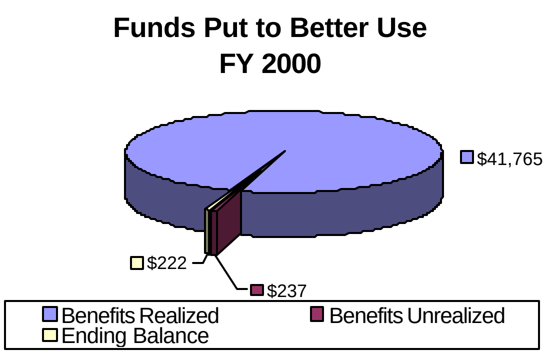
* Revised to reflect adjusted report numbers/dollar amounts from the end of September 30, 1999.

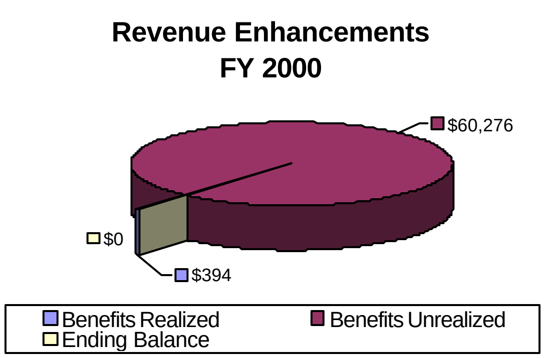
As shown, there were **eighteen (18)** reports at the beginning of the period requiring action, with associated potential benefits of **$242.0 million**. **Thirty-seven (37)** new reports were issued, with an associated dollar amount of **$620.6 million**. Final/partial actions were taken on **twenty-seven (27)** reports during the period, with an associated dollar amount of **$174.7 million**, which left an ending balance of **twenty-eight (28)** reports and an associated dollar amount of **$687.9 million** still requiring management action.

The following graphs present the summary results for FY 2000 of how much of the projected monetary benefits have been realized and how much have not been realized and , therefore, written off. IRS' data as reported by TIGTA are separately depicted.

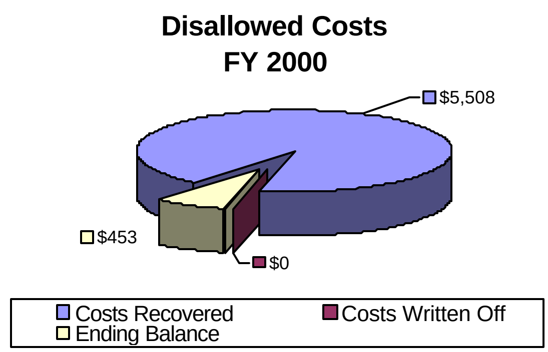
For All Bureaus except IRS (Amounts in $ thousands)

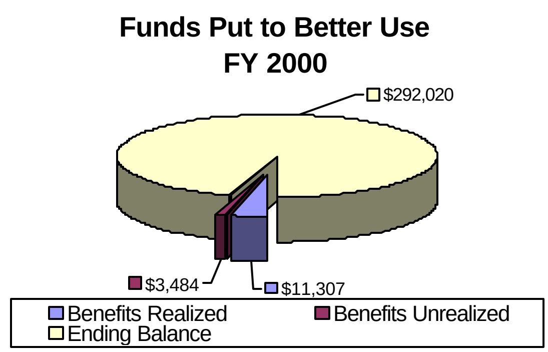


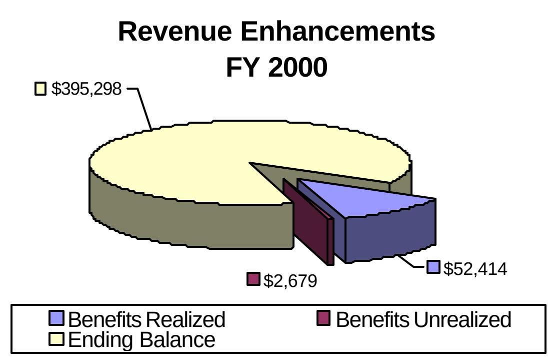




For IRS only (Amounts in $ thousands)



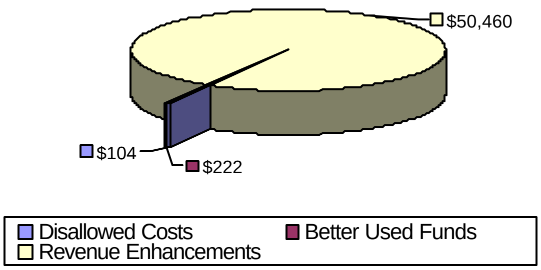




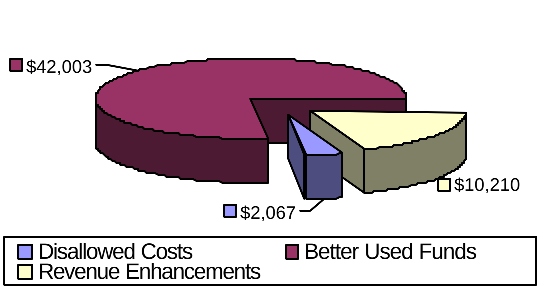
The following graphs provide the beginning balances, the new amounts added, the amounts closed out, and the ending balances for all bureaus during FY 2000.

For All Bureaus except IRS (Amounts in $ thousands)

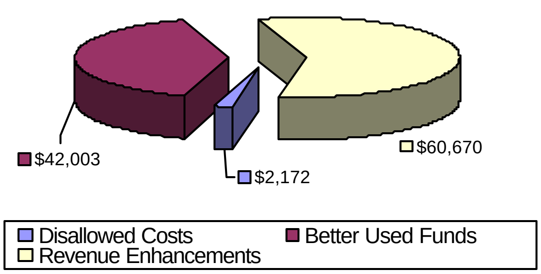
Beginning Balance Analysis



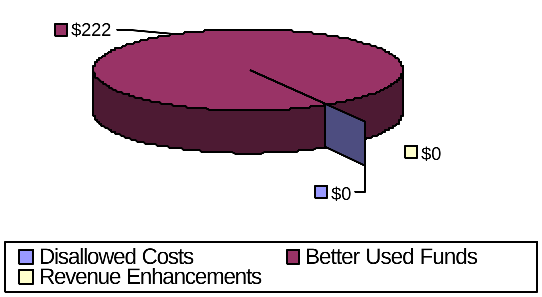
New Reports Analysis



Closed Reports Analysis

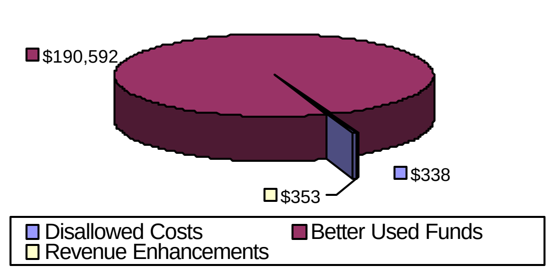


Ending Balance Analysis

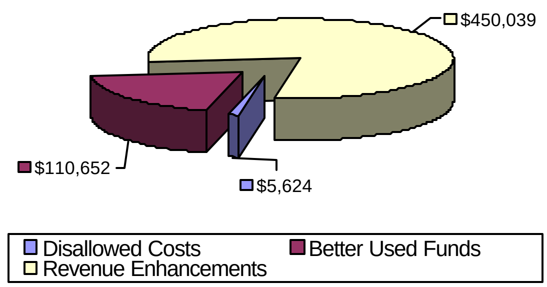


For IRS only (Amounts in $ thousands)

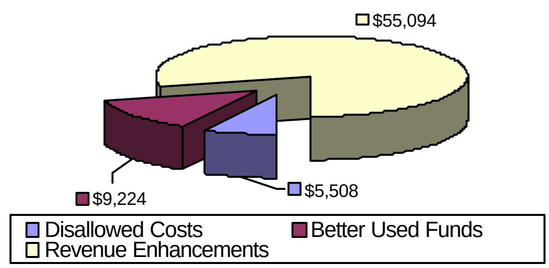
Beginning Balance Analysis



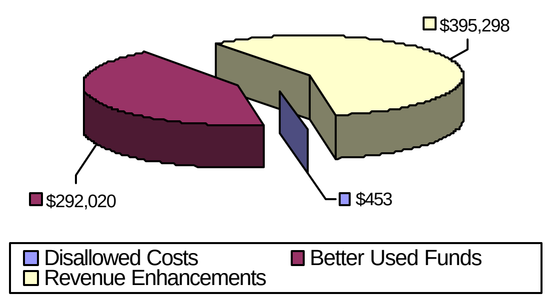
New ReportsAnalysis



Closed Reports Analysis



Ending Balance Analysis

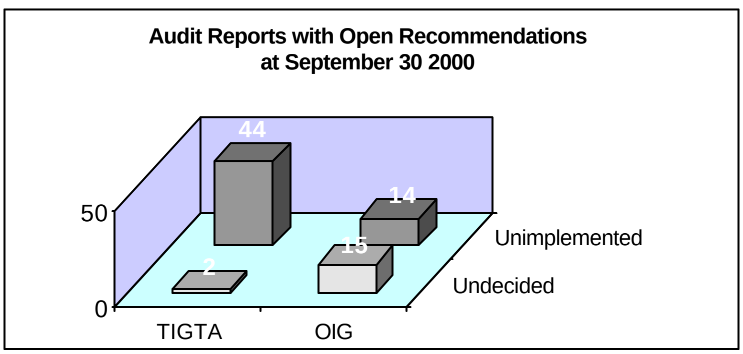


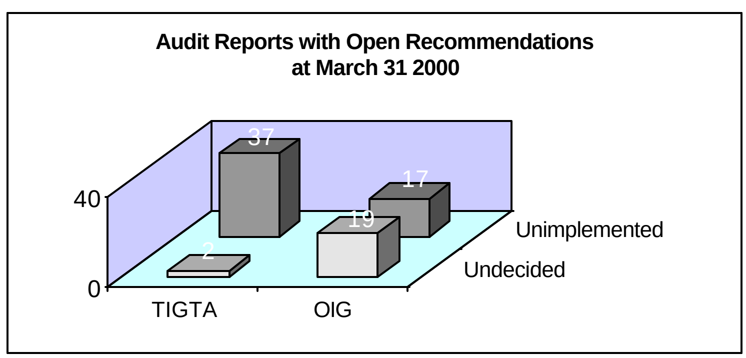
Ending Balance – Supplemental Information

In addition to the $687.9 million ending balance of recommendations with monetary benefits which management (all but one related to the IRS) has agreed to pursue, as of September 30, 2000, there were 15 OIG reports identifying $3.8 million in potential benefits which have remained undecided by bureau management for more than six months. The Department is actively working with both the bureaus and the OIG to verify the continuing validity of the original recommendations and to ensure that, where appropriate, the bureaus remove the items from the undecided category and develop implementation action plans.

Undecided Audit Recommendations and Significant Unimplemented Recommendations

The following charts provide a snap shot of the undecided audit recommendations and significant unimplemented recommendations containing potential monetary benefits for OIG and TIGTA at September 30, 2000 and March 31, 2000, respectively.





Part 4

Inspector General Reports and Management Responses

Audit of the Department of the Treasury's Fiscal Year 2000 Financial Statements

OIG-01-050 FEBRUARY 28, 2001

Office of Inspector General

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The Department of the Treasury

Contents

DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

February 28, 2001

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Report on the Department of the Treasury's Fiscal Year 2000 Financial Statements

SUMMARY

Our report on the results of our audit of the Department of the Treasury's (the Department) financial statements as of and for the fiscal year (FY) ending September 30, 2000 is attached. This audit is required by the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA). The Department's FY 2000 financial statements, and our audit report thereon, are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 2000*.

We are pleased to report that, for the first time, we are able to issue an unqualified opinion on the Department's annual financial statements. Also, each of the fourteen Treasury component entities that were separately audited pursuant to the CFO Act or other requirements received unqualified opinions.

This is an important milestone and represents significant progress made by the Department. However, in certain cases, most notably the Internal Revenue Service (IRS) and the United States Customs Service (Customs), unqualified opinions were achieved only through extensive efforts well after the fiscal year-end to overcome material weaknesses in internal controls to produce auditable information. Although this resulted in materially correct annual financial statements, it did not provide for reliable information during the year.

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Our report discusses two material weaknesses in internal control and two other reportable conditions identified during our audit. The material weaknesses relate to financial management and reporting at the IRS, and electronic data processing (EDP) general controls at the IRS, Customs and the Financial Management Service (FMS). The other reportable conditions address financial management improvements needed at Customs and certain other component entities.

We reported that the Department is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The Department also determined, through its self-assessment, that it is not in substantial compliance with the requirements of FFMIA.

In accordance with generally accepted government auditing standards, the Report of the Office of Inspector General is dated February 16, 2001, the last date of audit field work.

DISCUSSION

The progress made by the Department during the past year is clearly demonstrated by the audit results, however major challenges remain. A critical success factor in meeting the Department's overall financial management as well as programmatic objectives will be to successfully implement remediation plans that firmly address the weaknesses in internal control and non-compliances with FFMIA cited in this report.

Achieving unqualified audit opinions is an important accomplishment, however the broader financial management objective is to produce timely, accurate and reliable financial and managerial cost accounting information throughout the year to more effectively manage operations and to make informed decisions on resource allocation.

Resolving the remaining internal control weaknesses and achieving substantial compliance with FFMIA is a formidable challenge that will require strong corporate leadership by the Department and active engagement with the bureaus. Your support is essential for the Department to build upon its recent accomplishments and meet the continuing challenges. We are committed to working with you to achieve these goals.

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In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this memorandum. We recognize that certain corrective actions have already been undertaken. We encourage these efforts and will continue to provide advice and assistance to the Department in this regard.

Should you or your staff have questions, you may contact me at (202) 622-1090 or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit, at (202) 927-5430.

Attachment

cc: Steven O. App
Acting Chief Financial Officer

OIG

Report of the Office of Inspector General

The Department of the Treasury
Office of Inspector General

To the Secretary of the Treasury:

We audited the Department of the Treasury's (the Department) Consolidated Balance Sheet as of September 30, 2000, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Custodial Activity, and the Combined Statements of Budgetary Resources and Financing, for the year then ended. These financial statements are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 2000 (FY 2000 Accountability Report).*

Results in Brief

This report presents our unqualified opinion on these financial statements. Our audit disclosed the following material weaknesses, as defined on page 6 of this report:

- Financial Management and Reporting at the Internal Revenue Service (IRS) Needs Improvement (Repeat Condition) (see page 7).
- Electronic Data Processing (EDP) General Controls Over Financial Systems Should be Strengthened (Repeat Condition) (see page 9).

Our audit also disclosed the following reportable instances of noncompliance with laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA):

- IRS' installment agreements are not in compliance with Section 6159 of the Internal Revenue Code (IRC) (Repeat Condition) (see page 15).

- IRS did not release Federal tax liens in accordance with Section 6325 of the IRC. (Repeat Condition) (see page 16).

- U.S. Customs Service (Customs) did not complete a determination of rates for all fees and charges for its reimbursable projects as required by the Chief Financial Officers Act of 1990 (CFO Act) (Repeat Condition) (see page 16).

- Customs did not propose any fee changes nor report to Congress as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (Repeat Condition) (see page 16).

In addition, the Department's financial management systems did not substantially comply with Federal Financial Management Systems Requirements (FFMSR), Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level as required under FFMIA (Repeat Condition) (see page 17).

We considered these material weaknesses and instances of noncompliance in determining our audit procedures and in forming our opinion on whether the Department's FY 2000 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. These weaknesses and instances of noncompliance do not affect our opinion on these financial statements.

Management's Responsibilities

Management is responsible for:

- Preparing the financial statements in conformity with generally accepted accounting principles.

- Preparing the Management Discussion and Analysis (MD&A) of the Department, Supplemental Information, and Other Accompanying Information.

- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.

- Complying with laws and regulations applicable to the Department.

Scope of Audit

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01–02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01–02). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the IRS or the Bureau of the Public Debt's (BPD) Schedule of Federal Debt, which are included in the Department's financial statements. The IRS' financial statements include custodial revenues of $2.1 trillion, total assets of $26.6 billion, and net cost of operations of 8.7 billion. BPD's Schedule of Federal Debt includes the Federal debt and interest payable of $5.7 trillion and interest expense of $366 billion. These accounts were audited by another auditor whose reports were furnished to us, and our opinion, in so far as it relates to the amounts included in IRS' financial statements and BPD's Schedule of Federal Debt, is based solely on the reports of the other auditor. We believe that our audit and the reports of the other auditor provide a reasonable basis for our opinion and our conclusions on internal control and compliance with laws and regulations.

In planning and conducting our audit of the Department's financial statements for the year ended September 30, 2000, we considered its internal control over financial reporting by obtaining an understanding of the design of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal controls related to performance measures reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws and regulations, specified in OMB Bulletin No. 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the following three general requirements: FFMSR, applicable Federal accounting standards, and the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a).

Results of Audit

Opinion on the Financial Statements

In our opinion, based on our audit and the reports of the other auditor, the Department's financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 2000, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the year then ended, in conformity with generally accepted accounting principles.

MD&A and Supplemental Information

The MD&A and Supplemental Information are not required parts of the financial statements but are required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and Supplemental Information. However, we did not audit the MD&A and Supplemental Information and express no opinion on them.

Other Accompanying Information

Our audit was conducted for the purpose of expressing an opinion on the Department's financial statements for the year ended September 30, 2000, referred to above. The Other Accompanying Information is not a required part of the financial statements but is required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Internal Control

Internal control is a process, effected by the Department's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws and regulations, identified in OMB Bulletin No. 01-02; and

- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control, that could adversely affect the Department's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our *Report on the Department of the Treasury's Fiscal Year 1999 Financial Statements* (OIG-00-056, issued February 29, 2000), and that continued to exist during FY 2000 are identified as "Repeat Condition."

Material Weaknesses

Financial Management and Reporting at the IRS Needs Improvement (Repeat Condition)

IRS continues to face most of the pervasive systems and internal control weaknesses reported in prior years. Despite these weaknesses, in FY 2000, IRS was able to produce for the first time combined financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. This achievement was the result of concerted efforts on the part of IRS senior management and staff to develop compensating processes to work around its serious systems and control weaknesses. IRS laid the groundwork for sustainable improvements in several critical areas. However, IRS' approach to obtaining an unqualified opinion on its FY 2000 financial statements relied heavily on costly, time-consuming processes, statistical projections, external contractors, substantial adjustments, and labor intensive efforts that extended well after the September 30, 2000 fiscal year-end. These costly efforts would not be necessary if IRS' systems and controls operated effectively.

IRS' achievement is an important milestone. At the same time, sustaining this success will require a continued high level of involvement by IRS senior management and further efforts to obtain lasting solutions to its fundamental systems and internal control deficiencies. While IRS was able to produce financial statements that were fairly stated in all material respects using compensating processes, this approach does not produce reliable, useful, and timely financial and performance information that IRS needs for decision-making on an ongoing basis which is the goal of the CFO Act. Additionally, it does not address the underlying financial management and operational issues that adversely affect IRS' ability to effectively fulfill its responsibilities as the nation's tax collector.

The challenge for IRS will be to build on the improvements made in FY 2000 to not only improve its compensating processes but, more importantly, to develop and implement the fundamental long-term solutions. Some of these solutions can be addressed in the near term through the continued efforts and commitment of IRS senior management and staff. Others, which involve modernizing IRS' financial and operational systems, will take years to fully achieve.

The material weaknesses in internal control identified during the FY 2000 IRS audit, all of which are repeat conditions, are summarized as follows:

- an inadequate financial reporting process, resulting in IRS not having current and reliable ongoing information to support management decision-making and to prepare cost based performance measures;
- weaknesses in controls and other limitations affecting its ability to properly manage unpaid assessments, resulting in both taxpayer burden and potentially billions of dollars in lost revenue to the government;
- weaknesses in controls over tax refunds, permitting the disbursement of potentially billions of dollars of improper refunds;
- inadequate controls over property and equipment, resulting in IRS' inability to reasonably ensure that its property and equipment is safeguarded and used only in accordance with management policy;
- inadequate budgetary controls, resulting in IRS' inability to routinely ensure that its budgetary resources are being properly accounted for, reported, and controlled; and

- weaknesses in computer security controls that may allow unauthorized individuals to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information. IRS' information system weaknesses are included in the Department's material weakness *EDP General Controls Over Financial Systems Should be Strengthened (Repeat Condition)* discussed below.

The material weaknesses in internal control noted above may adversely affect any decision by IRS' management that is based, in whole or in part, on information that is inaccurate because of these weaknesses. In addition, unaudited financial information reported by IRS, including budget and performance information, may also contain misstatements resulting from these weaknesses.

In addition, two reportable conditions were identified related to: (1) deficiencies in controls over hardcopy tax receipts and taxpayer data; and (2) deficiencies and limitations in revenue reporting and excise tax distributions.

Recommendations:

Recommendations to address the weaknesses discussed above will be issued in a supplemental report in connection with the audit of IRS' FY 2000 financial statements. Given the significance of these weaknesses to IRS' custodial and administrative responsibilities and their effect on the Department's financial statements, we reaffirm our prior year recommendation that the Assistant Secretary for Management and Chief Financial Officer ensure that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the audits of its financial statements.

EDP General Controls Over Financial Systems Should be Strengthened (Repeat Condition)

EDP general controls, which provide the structure, policies and procedures that apply to every computer operation within the Department, need to be strengthened at certain component entities, most notably IRS, Customs, and the Financial Management Service (FMS). The following table shows the control weaknesses at these entities grouped by category of general controls:

	IRS	Customs	FMS
Entity-wide security program planning and management	ō	ō	ō
Access control	ō	ō	ō
Application software development and change control		ō	ō
System software	ō		ō
Segregation of duties	ō		ō
Service continuity	ō	ō	ō

EDP general control weaknesses were also identified at certain other bureaus, however they are not of such significance to be reported at the Department level.

The details of the general control weaknesses and audit recommendations were, or will be, provided to the respective bureau's management separately, and in some instances, due to the sensitive nature of the weaknesses, in separate reports with limited official distribution. Significant EDP general control weaknesses by major category are summarized below.

Entity-wide security program planning and management

Specific control weaknesses included inadequate: (1) security planning and implementation, and (2) software configuration program management to ensure the security and integrity of entity-wide system programs, files, and data. The entity-wide security program planning and management process provides for identifying and assessing risks, deciding what policies and controls are needed, periodically evaluating the effectiveness of these policies and controls, and acting to address any identified weaknesses.

Access control

Deficiencies existed in physical and logical access controls over computer resources (data files, application programs, and computer-related facilities and equipment) that protect against unauthorized modification, disclosure, loss, or impairment. Access control weaknesses make systems vulnerable to damage and misuse by allowing individuals and groups to inappropriately modify, destroy, or disclose sensitive data or computer programs for purposes such as personal gain or sabotage.

Application software development and change control

Policies and procedures to identify, select, install, and modify software have not been documented, and controls over infrastructure changes were not fully implemented. Application software development and change controls prevent unauthorized software programs or modifications to programs from being implemented.

System software

System software control weaknesses included not routinely monitoring key networks and systems. System software controls limit and monitor access to the powerful programs and sensitive files associated with the computer systems operation.

Segregation of duties

Segregation of duties weaknesses noted related to system and security administration. Segregation of duties refers to the policies, procedures, and organizational structure that help ensure that one individual cannot independently control key aspects of a processor computer-related operation, and thereby conduct unauthorized actions or gain unauthorized access to assets or records without detection.

Service continuity

Several significant deficiencies, including insufficient planning and testing, could impair timely restoration of mission-critical systems. Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected. In addition, these weaknesses could result in inappropriate disclosure of sensitive taxpayer information.

Although certain improvements have been made, previously reported weaknesses in these general controls categories continued to exist during FY 2000. Ineffective general controls over computer based financial systems make the Department vulnerable to losses, fraud, delays, or interruptions in service, and compromises the integrity and reliability of the information systems and data.

Recommendations:

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year audit recommendation that the Department's Chief Information Officer provide effective oversight to ensure that the specific recommendations detailed in the above referenced reports, and the related plans for corrective actions, are implemented completely and timely by the various bureaus.

Reportable Conditions

Management of Trade Activities and Related Systems at Customs Needs Improvement (Repeat Condition)

The audit of Customs' FY 2000 financial statements identified weaknesses that continued to exist in the design and operation of its controls over trade activities and financial management and information systems. Improved controls are essential for the effective management of these activities and protection of trade revenue. Customs' information systems weaknesses were discussed in the material weakness *EDP General Controls Over Financial Systems Should be Strengthened (Repeat Condition)* above. Weaknesses related to Customs' trade and financial management activities are discussed in more detail below:

- Customs' core financial systems did not provide certain critical financial information necessary for managing operations, such as a customer-based subsidiary ledger for non-entity accounts receivable. The financial systems also did not capture all transactions as they occurred, such as financing sources for reimbursable transactions and the recognition of liabilities upon receipt of goods and services. Additionally, financial systems were not fully integrated. Furthermore, overrides of system controls, designed to detect possible overpayment of refunds, are not subject to supervisory approval. Finally, Customs needs to refine the source data input into its Cost Management Information System to enable it to evaluate the accuracy of budget estimates used as a basis for reimbursable charges for certain inspection positions and other reimbursable services. As a result of these weaknesses, extensive manual procedures and analyses were required to process certain routine transactions and to prepare financial statements at fiscal year-end.

- Customs' controls over its drawback program continued to need improvement during FY 2000. Customs had not implemented sufficient processing controls to prevent duplicate or over/under-payments of drawback. For the last several years Customs has performed a compensating control procedure where its financial advisors perform statistical tests of drawback payments and liquidations to evaluate the validity of claims. While we concurred with Customs methodology for this procedure, we were unable to verify its test results because they were not submitted for audit timely and there were numerous instances where Customs' testing sheets contained erroneous or incomplete information. We were therefore unable to sufficiently evaluate the effectiveness of Customs' compensating control procedure over drawback.

- During FY 2000, Customs continued to experience weaknesses in its statistically-based examination programs known as compliance measurement programs (CMPs). CMPs are designed to quantify the revenue gap and assess trade law compliance. CMPs are essential to ensure accountability over imported goods processed within or entered into the United States commerce, or held by, and withdrawn from bonded warehouses and foreign trade zones. We determined that in some areas, CMPs need to be strengthened, and in other areas, CMPs need to be developed and implemented.

  Until Customs fully implements a comprehensive set of CMPs, it does not have reasonable assurance that the revenue gap and trade compliance are accurately measured. In addition, Customs lacks the information needed to adequately focus its trade compliance efforts.

Recommendations

Our separate report on the audit of Customs' FY 2000 financial statements includes specific recommendations to Customs' management for correcting the conditions noted above. These recommendations will be tracked and monitored at the Customs' level.

Financial Management at Certain Other Component Entities and Activities Needs Improvement (Repeat Condition)

In addition to the matters reported above pertaining to IRS and Customs, our financial statement audits of certain other Treasury component entities and accounts identified weaknesses in various financial management areas that affect the Department's ability to produce accurate, reliable, and timely information. Specifically:

- The Executive Office of Asset Forfeiture's (EOAF) general ledger does not record all balances and transactions that are reflected in its financial statements. This is due to the lack of interface between the general ledger and seized property and forfeited assets tracking systems belonging to the various law enforcement agencies participating in EOAF. As a result, EOAF's financial system does not provide management with timely information for managing operations during the year. (Repeat Condition)

- Due to ineffective financial management oversight of the Department's Office of International Affairs (OIA), audit adjustments of approximately $12.1 billion were needed to properly record the United States participation in the International Monetary Fund in the Department's financial statements. A financial manager is needed to provide the OIA, which manages the International Assistance Programs, financial management expertise in: (1) establishing accounting policy, (2) making adequate accounting estimates, including valuation of assets, 3) implementing effective internal controls over financial reporting, and (4) preparing financial statements and related disclosures. Subsequent to FY 2000, in January 2001, the OIA hired a financial manager. (Repeat Condition)

Recommendations:

EOAF's audit report provides recommendations to address the weaknesses described above for EOAF and participating law enforcement entities. We reaffirm our prior year recommendation that the Deputy Assistant Secretary for Information Systems and Chief Information Officer ensure that component entities develop and implement appropriate plans to improve and integrate their financial management systems.

We reaffirm our prior recommendation that the financial manager and IAP program managers be involved in addressing all critical matters related to reporting program activities, including accounting and reporting policy, valuation, and disclosure.

* * * * * *

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 01-02:

- IRS continued to be in non-compliance with Section 6159 of the IRC, which authorizes the IRS to enter into installment agreements with taxpayers to fully satisfy the taxpayer's liability. In FY 1998, IRS' management issued specific guidelines requiring that installment agreements provide for the full payment of a taxpayer's outstanding tax liability. However, these guidelines were not consistently followed. During the FY 2000 audit, instances were identified where the terms of installment agreements will not result in full payment of outstanding taxes before the statutory collection periods for these tax liabilities expire. (Repeat Condition)

- The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under Section 6325 of the IRC, IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied, has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. The FY 2000 audit identified instances in which taxpayers' total outstanding tax liabilities were either paid off or abated and IRS did not release the applicable Federal tax lien within the 30 day requirement stipulated by the IRC. (Repeat Condition)

- The CFO Act requires Customs to conduct a biennial review to determine the appropriateness of fees and other charges it imposes for services and things of value, and to make recommendations on revising those charges to reflect costs incurred in providing those services and things of value. In FY 1999, Customs completed its determination of the propriety of those fees; however, it was enable to revise certain fees to reflect costs incurred during FY 1999. In FY 2000, Customs conducted further research to determine the amount at which individual fees should be set. Customs' initial focus was on navigation fees, while continuing to conduct analyses on various other miscellaneous fees and charges, including reimbursable charges under interagency agreements. Since Customs has not completed a determination of rates for all such fees, Customs is not yet in full compliance with the CFO Act. (Repeat Condition)

- COBRA requires a biennial review and reporting of COBRA charges every even-numbered fiscal year. COBRA fees collected in FY 2000 totaled approximately $300 million. During FY 1999, Customs reviewed the appropriateness of COBRA fees as part of its biennial review described above; however, it did not make recommendations for changes to those fees. For FY 2000, Customs conducted further review of the governing legislation and congressional intent and determined it would not be appropriate to propose changes in the fees at this time. Customs plans to further review the COBRA fees and related legislation during FY 2001 to determine what legislative changes may be needed to better align the fees with the cost of service. Customs is required to submit a report on its review to Congress each even-numbered fiscal year. As Customs has neither proposed any fee changes nor reported to Congress, Customs is not in full compliance with COBRA legislation. (Repeat Condition)

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws and regulations, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 01-02.

The results of our tests disclosed instances where the Department's financial management systems did not substantially comply with FFMIA section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards and the SGL at the transaction level. (Repeat Condition)

Instances of noncompliance with FFMSR are summarized below:

- IRS' financial systems do not provide timely, complete and reliable information for financial reporting and preparation of financial statements. IRS was able to ultimately generate reliable financial statements, but only after several months of costly, time consuming, and labor intensive efforts, including the need for statistical projections, external contractor support, and substantial adjustments. In addition, IRS lacks a subsidiary ledger for its unpaid assessments; lacks a reliable subsidiary ledger for its property and equipment; and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances.

- Customs' core financial systems do not provide complete and accurate information for financial reporting and preparation of audited financial statements. The source data input into Customs' Cost Management Information System needs further refinement to enable Customs to generate estimated charges for certain inspection positions and other reimbursable services that approximate actual costs. Furthermore, certain feeder systems are not fully integrated or electronically interfaced with Customs' general ledger system.

- The material weakness regarding EDP general controls at IRS, Customs, and FMS discussed on page 9.

The instance of noncompliance with Federal accounting standards is summarized below:

- Material weaknesses at IRS related to controls over the financial reporting process, unpaid tax assessments, refunds, property and equipment, and budget.

Instances of noncompliance with the SGL at the transaction level requirements are described below:

- IRS' general ledger system (1) comprises two independent general ledgers that are not integrated with each other nor with their supporting records for material balances, (2) is not current or accurate, and (3) does not use the standard Federal accounting classification structure.

- Customs' reimbursable transactions were initially recorded in the general ledger as though they were appropriated transactions. Also, the Automated Commercial System did not interface with Customs' general ledger system to record all receivables throughout the year.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part 3 of the accompanying *FY 2000 Accountability Report*, that the Department cannot provide assurance that it is in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are also presented in Part 3.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance with the FFMIA no later than three years after a determination of noncompliance is made.

Customs' most recent FFMIA remediation plan includes the planned remedial actions and associated target dates. The plan also identifies the resources required for all but two of the planned remedial actions, however, funding for several of the key remedial actions is dependent on the enactment of future appropriations. We believe that Customs should develop alternative actions and plans wherever possible to address the funding uncertainties and extended timeframes related to these remedial actions. Several of Customs' critical remedial actions extend well beyond the three year statutory timeframe.

IRS structures its FFMIA remediation plan to respond to the recommendations of its auditors. IRS' remediation plan issued on September 30, 2000, did not always describe the resources devoted to address the issues that prevent IRS' financial management systems from complying with FFMIA requirements. For eight of the sixteen recommendations considered open at that time by the IRS and its auditors, the remediation plan did not specify the resources to be devoted to the actions planned. These include recommendations related to IRS' weaknesses in controls over property and equipment, operating funds, and refunds. In addition, IRS' remediation plan did not specify steps to ensure that adequate security is built into new systems and networks before they are placed in operation to prevent future recurrence of the computer security weaknesses in its existing systems. Also, some of IRS' remedial actions were not scheduled for completion within the three year statutory timeframe.

When IRS updated its remediation plan on December 31, 2000, the auditors noted improvement, however, two of the recommendations still did not indicate the resources to be devoted to implementing them.

The Department has requested, but not received, a waiver from OMB for Customs and IRS for the requirement to bring financial management systems into substantial compliance within the three year timeframe.

Recommendations:

We reaffirm our prior year recommendations that the Assistant Secretary for Management and Chief Financial Officer: (1) ensure IRS addresses the noncompliance with Section 6159 of the IRC; (2) ensure that IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the Internal Revenue Code; (3) ensure that Customs completes its efforts to determine and establish its user fees and other charges to comply with the CFO Act and COBRA; and (4) continue to monitor and assess the progress of the bureaus in developing and implementing their remediation plans to address the identified instances of financial management systems noncompliance with the requirements of FFMIA, and in taking appropriate actions when key target dates are not met.

* * * * * * *

We have reviewed our findings and recommendations with the Department's financial management and have incorporated their comments as appropriate. The response to our audit report from the Acting Chief Financial Officer is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of the Department, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
February 16, 2001

APPENDIX 1
Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 28, 2001

MEMORANDUM FOR JEFFREY RUSH, JR.
INSPECTOR GENERAL

FROM: Steven O. App *Steven O. App*
Acting Chief Financial Officer

SUBJECT: Management Response – Report of the Office of Inspector General on the Department of the Treasury's Fiscal Year 2000 Financial Statements

On behalf of Secretary O'Neill, I am responding to your audit report on the Department's financial statements included in Treasury's Fiscal Year 2000 Accountability Report.

We appreciate your efforts to audit the Department's fiscal year 2000 financial statements. Over the past several years, our offices have worked diligently together to get the Department of the Treasury to the significant accomplishment we obtained this year – an unqualified audit opinion on our financial statements.

However, we recognize that while the audit opinion is a good indicator of success in preparing our financial statements, we still have work to do to improve our financial reporting. You identified two material weaknesses in your audit: Financial Management and Reporting at IRS Needs Improvement; and, EDP General Controls Over Financial Systems Should be Strengthened. My office, along with the Chief Information Officer, will ensure that corrective action plans are properly developed and implemented to address these weaknesses.

I am confident that working together, along with senior management at the Treasury reporting entities, the Treasury Inspector General for Tax Administration, and the General Accounting Office, we can continue the trend to improve financial reporting within Treasury.

I look forward to working with you during the next year.

APPENDIX 2
Report Distribution

Office of Management and Budget

Director of the Office of Management and Budget

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

United States General Accounting Office

Comptroller General of the United States

INSPECTOR GENERAL

February 28, 2001

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury

SUMMARY

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges currently facing the Department of the Treasury for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2000*. This new legislation codified into law what had become, since 1997, an annual request of my office from the Senate and House leadership for similar information.

In our December 2000 response to the Congress, we identified nine serious challenges. The following eight challenges were identified in our prior year response: (1) Information Security, (2) Treasury's Information Technology Investment Management, (3) Money Laundering/Bank Secrecy, (4) Narcotics Interdiction and Trade Enforcement, (5) Revenue Protection, (6) Violent Crime, (7) Implementation of the Government Performance and Results Act, and (8) Financial Management at Treasury/Compliance with the Federal Financial Management Improvement Act. While Treasury has made substantial progress to address these challenges, we were not able to remove any from our December 2000 list because each continues to present a serious risk. In addition, we identified the following new challenge for 2000: Safety and Soundness of the Banking Industry.

It should be noted that Treasury made sufficient progress in addressing certain other previously reported serious challenges to warrant their removal from our list. These challenges include (1) Year 2000 compliance, (2) Treasury's debt collection initiatives, and (3) Electronic Funds Transfer/ Electronic Benefits Transfer.

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The Treasury Inspector General for Tax Administration will separately address challenges related to the Internal Revenue Service (IRS).

DISCUSSION

Our reasons for identifying these nine challenges as the most serious facing Treasury are as follows:

1. Information Security

   Protecting information and data from unauthorized access is critical to ensure, among other things, the integrity of Treasury's law enforcement and financial operations. Information technology (IT) enables Treasury to achieve its business goals but creates a number of internal control challenges. As information becomes more accessible through electronic means, threats to security increase. This has given rise to various initiatives to improve the Government's infrastructure.

   Treasury has achieved some of its security goals such as establishing an Information System Architecture Framework and Public Key Infrastructure draft standards. However, more needs to be done.

   Our audits have found significant, long-standing weaknesses in the U.S. Customs Service's (Customs) ability to maintain continuity of operations as well as overall security and access control. As a result, we issued a "7-Day" letter to the Secretary of the Treasury on May 26, 2000, who in turn notified Congress as required by the Inspector General Act. In that letter, we recommended that Customs take immediate steps to develop an alternative site for continuity of operations and install firewall and detection software to reduce the risk of unauthorized Internet access. Our audits have also identified Electronic Data Processing general control weaknesses at other Treasury bureaus, most notably the Financial Management Service (FMS). We also found that Treasury needed to devote additional resources to its implementation of Presidential Decision Directive (PDD) 63 which requires the development of a reliable, interconnected, and secure information system infrastructure. Treasury's efforts to implement PDD 63 have revealed the lack of

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resources being devoted to the effort. Furthermore, we noted the need for Treasury to identify and prioritize its critical assets.

2. Treasury's Information Technology Investment Management

The Clinger Cohen Act of 1996 (CCA) sets the groundwork for effective management of IT investments. With nearly $2 billion annually invested in IT by Treasury, CCA requires improved capital planning, investment controls, project management, systems development, and performance measurement. Treasury's weaknesses in effectively managing major IT investments have been well documented over the past several years for such systems as the IRS Tax System Modernization and the Customs Automated Commercial Environment (ACE) initiative. We recently issued a report detailing Treasury's implementation of CCA. In that report, we noted that the Treasury Investment Review Board (IRB) and Departmental practices needed improvement if they were to be able to provide executive direction and effective management over IT investments. Treasury implemented some CCA requirements and a number of our recommendations. Two examples of this are the restructuring of the IRB and expanded IRB oversight of 14 capital investment projects.

3. Money Laundering/Bank Secrecy

It is estimated that criminals launder hundreds of billions of dollars globally each year. It was recently reported that Citibank, the nations largest bank, failed to follow Federal guidelines to prevent money laundering and allowed as much as $800 million in suspicious Russian funds to flow through 136 accounts. In an audit we performed on the Office of the Comptroller of the Currency's (OCC) Bank Secrecy Act (BSA) examinations, we identified the need for OCC to strengthen examination procedures in several areas. We found that OCC examiners did not always perform complete BSA examinations including (1) following up on indicators of suspicious activity and (2) performing sufficient reviews of high-risk accounts. OCC agreed to take a number of actions, which should improve BSA examinations. Our work on Customs' strategic money laundering initiatives has revealed opportunities for expanding its intelligence capabilities. In response to another recent audit, Customs' Report of Transportation of Currency or Monetary Instruments was revised

Page 4

to require the reporting of additional types of monetary instruments.

4. Narcotics Interdiction and Trade Enforcement

Despite years of concerted Federal effort, drug smuggling continues unabated. As an indicator of the magnitude of the illicit drug trade and challenges faced by Customs to stop it, the Office of National Drug Control Policy reported that over 1,120 tons of cocaine entered the United States during Fiscal Year (FY) 1999. For the same period, Customs reported that it had seized 172 tons of cocaine. Our prior audits have disclosed that Customs needs better narcotics examination criteria, better targeting systems, and more consistency in the performance and reporting of narcotics examinations.

In FY 2001, Customs expects to process 25 million entry summaries valued at $1.3 trillion, 503 million persons, and 149 million conveyances. However, the automated system Customs uses to process merchandise is outdated and unable to keep up with trade demands. The system also has significant control weaknesses. Customs recognizes that its ability to process the growing volume of imports, while improving compliance with trade laws, depends heavily on its modernization of the trade compliance process and supporting automated systems. The success of this effort is contingent on how well and how soon Customs is able to implement ACE.

5. Revenue Protection

Based on our work, we believe that stronger internal controls and system improvements would increase revenues collected by Customs and the Bureau of Alcohol, Tobacco and Firearms (ATF). For example, Customs recognizes its revenue collection rate is less than 100 percent and reported a revenue gap (the estimated net amount owed the government for non-compliant consumption entries) of $252 million for FY 1999. We believe Customs could significantly reduce uncollected revenue through its planned large-scale systems improvements discussed previously. Our recent audits of ATF have also identified control weaknesses over the tax-free status of tobacco and spirits exports.

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6. Violent Crime

Despite a decline in the overall crime rate, violent crime remains a serious problem in the United States and remains the nation's number one public safety concern. Our recent audits of a major ATF program aimed at reducing violent crime, the Youth Crime Gun Interdiction Initiative (YCGII), found a number of opportunities for improvement. YCGII has the primary goals of tracing every recovered crime gun in participating cities through ATF's National Tracing Center and analyzing the resulting crime gun information to determine the community-wide patterns relating to recovered firearms. We found that ATF needed to do a better job of implementing the YCGII program and accounting for resources. Also, ATF needed to develop performance indicators that better measure YCGII's impact on reducing violent crime committed by youth. ATF agreed with our audit recommendations and is taking corrective actions.

7. Implementation of the Government Performance and Results Act

Integrating the Government Performance and Results Act's (GPRA) reporting requirements with traditional budget formulation and execution activities and the financial reporting requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 continues to serve as a worthwhile challenge for all Federal government agencies, including Treasury. Critical to this challenge are the collection, integration, and management of reliable performance data. To validate Treasury's data, we recently audited the accuracy and reliability of certain key performance measures. Through these audits we identified data errors and made recommendations for improving data reliability. While Treasury has improved the quality of the data stored in its automated and manual systems, we anticipate continued difficulty in the collection and management of reliable performance data.

Additionally, improved managerial cost accounting is necessary for the Department to effectively report and evaluate program performance. Accurate cost information is needed to identify the full costs of programs, activities, and outputs. The linkage of costs with performance measures is essential for informative reporting and meaningful cost/benefit analysis. The Department has initiated actions to improve managerial

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cost accounting; however, at most bureaus these efforts are still in the early stages.

Treasury has improved its strategic planning process and reassessed its strategic goals this past year. As a result of our assessment of Treasury's FY 1999 Performance Report and FY 2001 Performance Plan, Treasury modified the way it tracks performance goals and measures.

8. Financial Management at Treasury/Compliance with the Federal Financial Management Improvement Act

Treasury continues to face significant challenges to meet the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). FFMIA requires Federal agencies to implement and maintain financial management systems that comply substantially with Federal Financial Management System Requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. As reported in connection with our audit of Treasury's FY 2000 financial statements, Treasury is not in substantial compliance with the requirements of FFMIA.

Treasury, as well as individual component entities that were audited, received unqualified opinions on their FY 2000 financial statements. This is a notable accomplishment, however in certain cases it was achieved only through extensive efforts after year-end to overcome material weaknesses in internal controls to develop auditable financial information. Also, financial systems were not adequately integrated to support fiscal management of program delivery as well as budget execution functions and internal and external financial reporting requirements. These conditions precluded Treasury and a number of its bureaus the ability to generate timely and accurate information for routine operating and decision-making purposes, as well as for annual financial reporting.

9. Safety and Soundness of the Banking Industry

Clearly, a safe and sound banking system is a pre-condition for stability within our financial system. Through OCC and the Office of Thrift Supervision (OTS), Treasury regulates and supervises banks and thrifts with combined assets of over $4.2 trillion that account for over 58 percent of total industry

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assets. In addition, OCC-regulated national banks account for approximately $14.4 trillion of the off-balance-sheet assets, also known as financial derivatives. For nearly a decade the banking industry has experienced record profits, and bank failures continue to be minimal with less than 10 per year since 1995. However, recent signs of a slowing economy have become more evident given higher commodity prices and the spike in corporate bankruptcies. For the second quarter of Calendar Year 2000, the banking industry's earnings not only declined but also were the lowest since 1997.

Aside from fundamental economic factors, added regulatory and supervisory challenges arise out of the recently enacted Gramm-Leach-Bliley Financial Services Modernization Act (GLBA). This legislation lifted decade old restrictions on affiliations among banks, securities firms, and insurance companies. With it, additional supervisory challenges may also arise in other areas such as money laundering, the Community Reinvestment Act, financial privacy, predatory lending, and the expanded sharing of regulatory responsibility under the new law's functional regulation provisions. For example, we recently reported that the business of banking is evolving to include selling insurance, and this activity is expected to expand with the passage of GLBA. While insurance activities have traditionally been under the functional regulation of states, we believe that OCC needs to determine the reliance it can place on state supervision, and better define its supervisory role over national bank insurance activities.

Should you or your staff have questions, you may contact me at (202) 622-1090, or a member of your staff may contact Dennis Schindel, Assistant Inspector General for Audit, at (202) 927-5400.

INSPECTOR GENERAL
For TAX
ADMINISTRATION

February 9, 2001

MEMORANDUM FOR TREASURY SECRETARY PAUL H. O'NEILL

FROM: /S/
David C. Williams
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service

SUMMARY

The Reports Consolidation Act of 2000 requires that we summarize for you our perspective on the most serious management and performance challenges currently facing the Internal Revenue Service (IRS) for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2000*. This new legislation codified into law what had become, since 1997, an annual request for this information from the Senate and House leadership.

In the Treasury Inspector General for Tax Administration's (TIGTA) December 2000 response to the Congress, TIGTA advised that the major IRS management challenge areas had not changed substantially from the prior year. While the IRS has acted to address each challenge area, TIGTA was able to remove only one challenge, which addressed Year 2000 Compliance. We believe the major management and performance challenges, in order of priority, facing the IRS in Fiscal Year (FY) 2001 are:

- Modernization of the Internal Revenue Service
  - Organizational Restructuring
  - Technology Modernization
- Financial Management
- Security of the Internal Revenue Service's Information Systems
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

- Customer Service and Tax Compliance Initiatives
- Providing Quality Customer Service Operations
- Revenue Protection - Minimizing Tax Filing Fraud
- Taxpayer Protection and Rights
- Implementation of the Government Performance and Results Act of 1993
- Impact of the Global Economy on Tax Administration

DISCUSSION

Discussion of the major IRS management challenge areas, including examples of relevant TIGTA audit work, follows.

Modernization of the Internal Revenue Service – Organizational Restructuring

The most significant challenge the IRS will face over the next few years is modernization. IRS modernization includes both organizational restructuring and implementation of new computer systems and technology. The IRS Restructuring and Reform Act of 1998 (RRA 98)[1] mandated a restructured IRS organization and revamped business practices. The ability to achieve the IRS' modernization concept is largely dependent on restructuring the organization to better meet taxpayer needs and developing new technology to correct deficient and obsolete systems.

On October 1, 2000, the IRS achieved its first milestone on the way to modernization by putting into effect (or standing up) a new organizational structure. The new structure consists principally of four new operating divisions: Wage and Investment, Small Business/Self Employed, Large and Mid-Size Business, and Tax Exempt and Government Entities. TIGTA evaluated the "stand up" process for both the Large and Mid-Size Business and the Small Business/Self-Employed Divisions. Both functions accomplished their objectives; however, TIGTA noted that internal and external communications will require attention.

Modernization of the Internal Revenue Service – Technology Modernization

Modernization of the IRS' technology is crucial to implementing its new business vision of providing world-class service to taxpayers. Key goals, such as 80 percent of tax returns being filed electronically by the year 2007 and significantly improving levels of service in answering taxpayers' questions, are contingent on the development of new technology.

[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. App., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C. 38 U.S.C., and 49 U.S.C.).

The IRS is making progress toward implementing an effective systems modernization management approach. It has established an organization and governance process to manage and oversee its systems modernization efforts. In addition, the IRS is working closely with its primary contractor to develop the Enterprise Architecture and Enterprise Life Cycle (ELC) processes that are needed to modernize its computer systems successfully.

However, various management and technical weaknesses that plagued prior systems modernization efforts still need to be addressed. For example, the IRS has not yet fully implemented the architecture and ELC, which has caused difficulties in managing individual projects. As a result, the IRS has had to delay or scale back planned projects, including several customer service enhancements originally scheduled for the 2001 tax filing season. Efforts are underway to improve the management and oversight of ongoing and planned modernization projects so that the improvements in service to taxpayers can be realized.

Financial Management

The IRS' financial systems still cannot produce the reliable information necessary to prepare financial statements in accordance with federal accounting standards.

The General Accounting Office (GAO) rendered an unqualified or "clean" audit opinion on the IRS' FY 1999 statement of custodial activities, but rendered a qualified opinion on the balance sheet due to insufficient evidence about the reliability of the components of net position. In addition, the GAO was unable to render opinions on the FY 1999 statements of net cost, changes in net position, budgetary resources, and financing. This was due to insufficient evidence about the IRS' fund balance with the Department of Treasury, property and equipment, accounts payable and net position, and the reliability of program costs and budgetary balances. The GAO also concluded that the IRS' financial management systems do not substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA),[2] but the IRS prepared the required remediation plan.

TIGTA reported that, overall, the remediation plan is reasonable but concluded that the plan did not fully comply with all FFMIA requirements. As a result, the IRS cannot ensure that all financial management weaknesses are adequately and timely resolved. The IRS has taken action to improve the remediation plan and address financial management weaknesses.

[2] *IRS' Fiscal Year 1999 Financial Statements,* Report Reference Number GAO/AIMD-00-76.

Security of the Internal Revenue Service's Information Systems

In the past, the security of taxpayer data has been an Achilles heel for the IRS, particularly in the area of unauthorized browsing of taxpayer records. TIGTA recommended that the IRS actively review audit trail records to identify unauthorized accesses to taxpayer information and other inappropriate activity on its computer systems. In addition, as the primary revenue collector for the United States (U.S.), the IRS is a target for both terrorists and hackers. Disgruntled employees also represent a major threat, particularly with the turmoil the IRS is experiencing during its reorganization process. The IRS has conducted comprehensive security reviews of its major facilities and has significantly reduced previously identified security weaknesses. While the IRS has made significant progress in bolstering computer security, further improvements are needed.

During FY 2000, TIGTA identified weaknesses in key programs, such as security certification and accreditation of sensitive systems, virus protection, and mainframe operating system controls. Until these weaknesses are resolved, IRS systems and taxpayer data remain vulnerable to tampering, loss, or unauthorized disclosure.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

The filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. Many programs, activities, and resources have to be planned and managed effectively for the filing season to be successful. For example, more than 250 computer programming changes were required for the 2000 tax filing season. This was further complicated by the IRS' modernization efforts to update and replace the core tax processing systems.

The IRS experienced no significant processing problems from either tax law changes or the Year 2000 conversion during the 2000 tax filing season. However, TIGTA reported that the IRS needs to ensure critical programming changes for the filing season receive priority over other programming requests. Additionally, the IRS' processing procedures were not designed to identify and correct a credit when outdated estate tax returns were used by taxpayers. As a result, an estimated 1,250 estates of decedents may have overpaid $11.6 million.

Customer Service and Tax Compliance Initiatives

The IRS has embarked on a course to re-engineer its business processes and technology to focus on providing world-class service to taxpayers. The theory is that the overall rate of voluntary compliance with the tax laws will increase if the IRS provides the right mix of education and support to taxpayers.

Revenue receipts processed by the IRS increased from $1.5 trillion in FY 1996 to $1.9 trillion in FY 1999. However, revenue collected as a result of compliance activity decreased by $5 billion and gross accounts receivable increased by $41 billion during this same period. IRS management and many stakeholders, including some members of the Congress, are concerned about the reduction in resources allocated to compliance activities and the related decrease in business results. To help address this issue, the Treasury's FY 2001 budget submission includes a request for 2,800 new positions over the next 2 fiscal years. These additional resources will be dedicated to enforcing tax laws and improving service to taxpayers.

The IRS' prior Taxpayer Compliance Measurement Program was considered too intrusive and was cancelled. Currently, the IRS has no reliable method to measure voluntary compliance or the impact that increased customer service and decreased enforcement are having on voluntary compliance. The IRS needs to strengthen its enforcement capacity before voluntary compliance is severely eroded.

Decreased enforcement has also been attributed to IRS employees' concerns over the mandatory termination provision in Section 1203 of the RRA 98.[3] To help address these concerns, the TIGTA has continued to brief the IRS staff on investigations related to Section 1203 violations. During FY 2000, the TIGTA briefed over 2,700 IRS employees.

Providing Quality Customer Service Operations

Providing top quality service to every taxpayer is integral to the IRS' modernization plans. The IRS provides customer service through toll-free telephone service, electronic customer service, written communications to taxpayers, and walk-in service. Each of these services affects a taxpayer's ability to voluntarily comply with the tax laws.

TIGTA conducted reviews of the IRS' toll-free and walk-in assistance programs and reported that the IRS' planning efforts for these programs was adequate for the 2000 tax filing season; however, resource limitations prevented full implementation of customer service initiatives.

Additionally, TIGTA concluded that the IRS, through the Electronic Tax Law Assistance Program, needs to leverage technology to provide enhanced access to tax information, maximize efficiency, and improve electronic customer service. TIGTA reported that the IRS must ensure the Tax Exempt/Government Entities Division's centralized customer service site has the latest technology and resources to meet future growth, as well as a comprehensive business resumption plan.

[3] Provisions in Section 1203 of the RRA 98 provide for the mandatory termination of IRS employees for specific categories of employee misconduct.

Revenue Protection - Minimizing Tax Filing Fraud

The IRS must continually seek opportunities to protect revenue and minimize tax filing fraud in its programs and operations. In October 1999, the GAO reported the Earned Income Credit (EIC) as a high-risk area. The IRS then reported EIC filing fraud as a Federal Managers' Financial Integrity Act of 1982 (FMFIA)[4] material weakness. The IRS' weaknesses are in three primary areas: achieving full participation by eligible taxpayers; ensuring compliance through verification of taxpayers' eligibility; and, reducing inherent vulnerabilities (multiple use of dependent Social Security Numbers). The IRS has launched promising new initiatives as part of these efforts.

With respect to revenue protection, TIGTA reported that the IRS should expand early intervention efforts nationwide to further reduce unreported estate executor commissions. This action could potentially result in an additional $2.6 million in taxes and interest over the next 5 years.

Taxpayer Protection and Rights

TIGTA is required to review the IRS' compliance with some of the RRA 98 provisions annually. In FY 2000, TIGTA completed its second series of statutory reviews. Overall, TIGTA reported some improvement in the IRS' compliance with many of the RRA 98 provisions. However, the degree of improvement often could not be quantified because strict comparisons between the two years could not be drawn. One area of improved compliance involved seizures. TIGTA reported that the IRS complied with the specific Internal Revenue Code provisions and its own guidelines for all seizure cases reviewed. In addition, the IRS complied with the RRA 98 provisions for all district office levies issued, and for 99 percent of the Customer Service Automated Collection System call site levies reviewed.

Other RRA 98 provisions need continued monitoring because the IRS is not yet in full compliance. These include: restricting the use of enforcement statistics to evaluate IRS employees, not designating taxpayers as illegal tax protesters, providing proper and timely notice that a federal tax lien has been filed, and not withholding information in response to taxpayers' written requests for information under the Freedom of Information Act of 1988[5] or the Privacy Act of 1974.[6]

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[4] 31 U.S.C. §§ 1105-1106, 1113, and 3512 (1994).
[5] 5 U.S.C. § 552 (1996).
[6] 5 U.S.C. § 552a (1996).

Implementation of the Government Performance and Results Act (GPRA)

Within the last 2 years, the IRS has developed an "interim" Strategic Plan (February 1999), and consistently provides a budget justification, which includes the Annual Performance Plans. Collectively, these documents satisfy major requirements of the GPRA by identifying the IRS' mission, strategic objectives, goals, and strategies to achieve those goals. The documents also describe the IRS' priorities for the next 6 years and the key performance indicators (measures) used in assessing achievement of those goals. The IRS Commissioner has indicated that it will take several years to achieve a fully acceptable set of balanced measures that can be used at all levels of the organization.

The IRS has recently revised its strategic planning, budgeting, and business review processes, and is updating the Strategic Plan. While the new business units concentrate on implementing the new organizational structure, performance measures may not be a high priority. The TIGTA reported that the IRS can improve its measures, the data quality of its measures, and its reporting of annual accomplishments. In addition, the IRS agreed to some TIGTA recommendations to improve the data and reporting of customer satisfaction results and has recently committed to working with vendors in addressing the TIGTA concerns about sample methodologies and survey response rates.

Impact of the Global Economy on Tax Administration

The acceleration of world trade and e-commerce in the business world exceeds the government's capacity to administer taxes. The GAO and TIGTA have previously reported serious internal control and systemic weaknesses in the IRS' administration of its international programs. The IRS continues to struggle to increase compliance in an ever-growing international economy. Significant improvements are needed in international compliance programs to focus on non-filing, transfers of assets by U.S. citizens to foreign trusts, foreign tax credit claims, and foreign-sourced income.

The IRS has indicated that it has undertaken several international tax administration and compliance programs to address TIGTA's concerns in the areas of transfer pricing, tax credits, foreign trusts, non-filers, and foreign-sourced income reporting issues. TIGTA has two reviews in process that evaluate compliance by foreign investment partners and taxpayers receiving foreign-sourced income.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 26, 2001

MEMORANDUM FOR JEFFREY RUSH, JR.
INSPECTOR GENERAL

DAVID C. WILLIAMS
INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Steven O. App Steven O. App
Acting Chief Financial Officer

SUBJECT: Management's Response – Management and Performance Challenges Facing the Department of the Treasury

On behalf of Secretary O'Neill, I am responding to your respective memoranda describing your perspectives on the most serious management and performance challenges facing the Department and the Internal Revenue Service, respectively.

We appreciate your efforts in identifying these challenges, and we concur with your assessments that these issues represent major management and performance challenges for the Department and its largest bureau, the Internal Revenue Service. To this end, we have also acknowledged our concurrence by including a discussion of these challenges in the "Ongoing Challenges" section of the Accountability Report's "Management's Discussion and Analysis."

In addition, we will include a detailed description of actions taken during FY 2000 in our soon to be issued FY 2000 Performance Report. Although budgetary constraints may hinder our ability to address all the challenges as quickly as we would like, please be assured that successfully meeting the management and performance challenges you have identified will receive a high priority from the Department's senior management.

I look forward to continue working constructively with both of you during the coming year.

Part 5

Supplemental Information

Supplemental Information

Introduction

This section provides the Required Supplemental Information described in the Office of Management and Budget Bulletin 97-01, as amended, Form and Content of Agency Financial Statements, and also includes Other Accompanying Information and the Required Stewardship Supplemental Information, which provide additional financial information. Other program and financial information such as Prompt Payment Act compliance and a complete listing of all performance measures cited in this Accountability Report are also provided.

SUPPLEMENTAL INFORMATION TO FINANCIAL STATEMENTS

Note A. Segment Information

Franchise Fund

The Department of Treasury's Franchise Fund is a fee-for-service organization that is fully reimbursable and competitive. The fund currently consists of six business activities - the Center for Applied Financial Management, the Federal Quality Consulting Group, and four former Cooperative Administrative Support Units (CASU) now operating as Treasury Franchise Businesses.

The Center for Applied Financial Management improves the quality of Government financial management by providing individualized accounting cross-servicing, financial systems consulting, financial management consulting, and financial education services.

Some of the major customers include: Administrative Offices of the U.S. Courts, Bureau of Indian Affairs, Defense Finance and Accounting Service, Library of Congress, U.S. Senate and various other Executive department's and agencies.

(In millions):

Franchise Fund	Amounts
Fund Balance with Treasury	$41
Accounts Receivable	24
Property, Plant and equipment	1
Other Assets	0
Total Assets	$66
Accounts Payable	$8
Other Liabilities	44
Total Liabilities	52
Cumulative Results of Operations	14
Total Liabilities and Net Position	$66
Total Costs	$163
Exchange Revenue	163
Other Financing Sources	2
Excess of Revenues and Financing Sources over Costs	$2

Working Capital Fund

The Departmental Office's Working Capital Fund is a fee-for-service organization that is fully reimbursable and competitive.

The fund presently offers the following program services to various Treasury bureaus: telecommunications, payroll/personnel systems, printing and other.

(In millions):

Working Capital Fund	Amounts
Fund Balance with Treasury	$214
Accounts Receivable	26
Property, Plant and equipment	8
Other Assets	2
Total Assets	$250
Accounts Payable	$53
Other Liabilities	197
Total Liabilities	250
Cumulative Results of Operations	0
Total Liabilities and Net Position	$250
Total Costs	$235
Exchange Revenue	235
Other Financing Sources	0
Excess of Revenues and Financing Sources over Costs	$0

Note B. Other Claims for Refunds and Drawbacks

The Department has estimated that $23.7 billion which may be paid out as other claims for tax refunds and drawbacks. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $8.4 billion and by Appeals is $13.5 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Note C. Unpaid Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2000 were as follows in millions:

Gross Unpaid Assessments	$240,000
Less Compliance Assessments and Write Offs	(159,000)
Net Amount	$ 81,000

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $14 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

U. S. Customs Service (Customs)

Customs reviews selected documents to ensure all duties, taxes, and fees owed to the Federal government are paid and to ensure regulations are followed. If Customs believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. Customs regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all avenues to file a protest have expired or an agreement is reached. During this protest period, Customs does not have a legal right to the importer/violator's assets, and consequently, Customs recognizes accounts receivable only when the protest period has expired or an agreement is reached. For Fiscal Year 2000, Customs had a legal right to collect $948 million of receivables. In addition, there is an additional $1.7 billion representing records still in the protest phase.

Internal Revenue Service (IRS)

The unpaid tax assessments balance was about $81 billion as of September 30, 2000. This unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the Service's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under Federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered Federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered Federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the $240 billion balance of unpaid assessments, $129 billion represents write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayer's, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires. In addition, $30 billion of the unpaid assessment balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered Federal taxes receivable.

Note D. Abatement of Taxes

Abatement of taxes, which occurred during FY 2000, amounted to $49 million.

Note E. Heritage/Stewardship Property Plant and Equipment

These assets include the Treasury Department building and the Treasury Annex building. The Department also has four multi-use heritage assets located in Puerto Rico.

	Heritage Assets	Land
Beginning Balance	5	1
Additions	0	0
Withdrawals	0	0
Ending Balance	5	1

Note F. Statement of Budgetary Resources Dis-aggregated by Major Accounts

The following table represents a dis-aggregation of The Department of the Treasury's major budget accounts, which are aggregated in the Statement of Budgetary Resources.

Budgetary Resources	**Appropriated Funds**	**Revolving Funds**	**Trust Funds**	**Other Fund Types**	**Total**
Budget Authority	$390,480	$19	$325	$543	**$391,367**
Unobligated Balance	15,352	21,085	3,594	948	**40,979**
Spending Authority from Offsetting Collections Earned	120,822	7,417	405	1	**128,645**
Adjustments	(6,785)	(1,496)	13	57	**(8,211)**
Total Budgetary Resources	$519,869	$27,025	$4,337	$1,549	**$552,780**
Status of Budgetary Resources					
Obligations Incurred	$506,065	$6,065	$962	$750	**$513,842**
Unobligated Balances Available	13,087	20,721	3,371	159	**37,338**
Unobligated Balances Not Available	717	239	4	640	**1,600**
Total Budgetary Resources	$519,869	$27,025	$4,337	$1,549	**$552,780**
Outlays					
Obligations Incurred	$506,065	$6,065	$962	$750	**$513,842**
Spending Authority from Offsetting Collections and Adjustments	(121,962)	(5,908)	(420)	(57)	**(128,347)**
Obligated Balance, Net-Beginning of the Period	6,788	822	159	272	**8,041**
Obligated Balance Transferred, Net	0	0	0	0	**0**
Obligated Balance, Net-End of Period	(6,772)	(967)	(204)	(269)	**(8,212)**
Total Outlays	$384,119	$12	$497	$696	**$385,324**

Note G. Deferred Maintenance

In FY 2000, the Department reported $7 million in deferred maintenance on general property plant and equipment. The $7 million represents deferred maintenance on vehicles, vessels and buildings and structures owned by the Department.

As reported, Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building and other structure logistic reports. Upon completion of this step, logistic personnel use a condition assessment survey to determine the status of referenced assets. This procedure is performed in accordance with the Statement of Federal Financial Accounting Standards No. 6 guidelines. A five level rating scale (excellent, good, fair, poor and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates. A summary of FY 2000 deferred maintenance is as follows (in millions):

	Deferred Maintenance	Asset Condition for Deferred Maintenance Only
Building & Structures	$3	Poor to Fair
Equipment	4	Poor to Fair
Heritage Assets	0	
Stewardship Land	0	
Total	$7	

Note H– Intra-governmental Assets, Liabilities, Revenue & Costs, and Transfers In/Out (In Millions)

Required Supplementary Information
Note H(1) - Intra-governmental Assets

Partner Agency	Due from the General Fund	Loans & Related Interest Receivable	Advance to the Black Lung Trust Fund	Accounts Receivable and Related Interest	Other
General Fund	$5,665,427	$0	$0	$0	$0
Unknown 00	$0	$0	$0	$16	$1
Government Printing Office 04	$0	$0	$0	$0	$1
General Accounting Office 05	$0	$0	$0	0	$0
Congressional Budget Office 09	$0	$0	$0	$2	$0
Executive Office of the President 11	$0	$1,496	$0	$0	$0
Department of Agriculture 12	$0	$79,429	$0	$19	$0
Department of Commerce 13	$0	$156	$0	$0	$1
Department of Interior 14	$0	$1,426	$0	$85	$0
Department of Justice 15	$0	$20	$0	$30	$0
Department of Labor 16	$0	$0	$6,749	$0	$0
Department of the Navy 17	$0	$1,064	$0	$69	$0
U.S. Postal Service 18	$0	$9,319	$0	$21	$0
Department of State 19	$0	$0	$0	$3	$0
Department of the Army 21	$0	$0	$0	$36	$0
OPM –24	$0	$0	$0	$17	$0
Fed. Communications Commission 27	$0	$5,307	$0	$0	$0
Smithsonian Institution 33	$0	$20	$0	$0	$0
Department of Veterans Affairs 36	$0	$1,856	$0	$20	$0
General Services Administration 47	$0	$2,509	$0	$115	$1
Department of the Air Force 57	$0	$0	$0	$475	$0
Fed. Emergency Management Agency 58	$0	$416	$0	$0	$0
Railroad Retirement Board 60	$0	$4,964	$0	$0	$0
Tennessee Valley Authority 64	$0	$152	$0	$0	$0
Environmental Protection Agency 68	$0	$38	$0	$0	$0
Department of Transportation 69	$0	$764	$0	$2	$0
Overseas Private Investment 71	$0	$63	$0	$0	$0
Agency for International Development 72	$0	$2	$0	$0	$0
Small Business Administration 73	$0	$10,821	$0	$0	$0
Department of Health and Human Services 75	$0	$0	$0	$18	$0
NASA 80	$0	$0	$0	$3	$0
Export/Import Bank of the US 83	$0	$6,683	$0	$0	$0
Department of Housing & Urban Develop. 86	$0	$12,502	$0	$1	$0
Department of Energy 89	$0	$2,544	$0	$26	$0
Department of Education 91	$0	$65,755	$0	$0	$0
Independent Agencies 95	$0	$40	$0	$0	$0
US Army Corps of Engineers 96	$0	$18	$0	$7	$0
Office of the Secretary of Defense - DA 97	$0	$2,428	$0	$100	$14
Totals	**$5,665,427**	**$209,792**	**$6,749**	**$1,065**	**$18**

On the Department's Balance Sheet, "Other" under Entity Assets includes accounts receivable and related interest. On the Department's Balance Sheet, "Due to the General Fund" is also netted against "Due from the General Fund." Fund balance with Treasury at September 30, 2000 was $60,920 million.

Required Supplementary Information
Note H(2) - Intra-governmental Liabilities (In Millions)

Partner Agency	Due to the General Fund	Federal Debt & Related Interest (BPD only)	Loans Payable and Related Interest	Other
General Fund 99	$282,485	$0	$0	$319
Unknown 00	$0	$10	$0	$78
Library of Congress 03	$0	$646	$0	$0
Government Printing Office 04	$0	$0	$0	$1
Congressional Budget Office 09	$0	$39	$0	$0
The Judiciary 10	$0	$523	$0	$0
Executive Office of the President 11	$0	$2	$0	$1
Department of Agriculture 12	$0	$23	$0	($11)
Department of Commerce 13	$0	$4	$0	$1
Department of Interior 14	$0	$3,420	$0	$0
Department of Justice 15	$0	$852	$0	$27
Department of Labor 16	$0	$99,950	$0	$173
Department of the Navy 17	$0	$11	$0	$13
U.S. Postal Service 18	$0	$1,086	$0	$9
Department of State 19	$0	$10,848	$0	$12
Department of the Army 21	$0	$1	$0	$2
U.S. Tax Court 23	$0	$8	$0	$0
OPM –24	$0	$533,825	$15,337	$70
National Credit Union Administration 25	$0	$4,528	$0	$0
Social Security Admin. 28	$0	$1,023,604	$0	$5
Department of Veterans Affairs 36	$0	$14,450	$0	$0
General Services Administration 47	$0	$0	$0	$14
Independent Agencies 48	$0	$0	$0	$3
Federal Deposit Insurance Corporation 51	$0	$43,739	$0	$0
Department of the Air Force 57	$0	$1	$0	$0
National Foundation Arts/ Humanities 59	$0	$1	$0	$0
Railroad Retirement Board 60	$0	$19,296	$0	$0
Environmental Protection Agency 68	$0	$5,554	$0	$0
Department of Transportation 69	$0	$46,784	$0	$0
Overseas Private Investment 71	$0	$3,303	$0	$0
Agency for International Development 72	$0	$0	$0	$2
American Battle Monuments Commission 74	$0	$72	$0	$0
Department of Health and Human Services 75	$0	$219,178	$0	$1
Independent Agencies 76	$0	$6	$0	$0
Farm Credit 78	$0	$1,618	$0	$0
NASA 80	$0	$17	$0	$0
Export/Import Bank of the US 83	$0	$1,071	$0	$0
Armed Forces Retirement Home 84	$0	$100	$0	$0
Department of Housing & Urban Develop. 86	$0	$23,579	$0	$1
National Archives and Records Admin. 88	$0	$18	$0	$0
Department of Energy 89	$0	$12,479	$0	$0
Federal Mediation & Conciliation Service 93	$0	$0	$0	$2
Independent Agencies 95	$0	$671	$0	$0
US Army Corps of Engineers 96	$0	$2,074	$0	$1
Office of the Secretary of Defense - DA 97	$0	$163,668	$0	$19
Totals	$282,485	$2,237,059	$15,337	$743

Note H(3) - Intra-governmental Amount
Non-Exchange Revenue (In Millions)
(Transfers IN/ OUT)

Partner Agency	IN	OUT
General Fund 99	$200	$103
Department of Justice 15	$0	$2
Department of the Navy 17	$19	$0
Totals	$219	$105

The above does not include distributions to the General Fund which are included in SGL Account 7500 which are included on the line on the Statement of Changes in Net Position "Transferred Out to the General Fund," in the amount of $18,566 million.

The technical amendments to OMB 97-01, dated January 7, 2000 require agencies with earned revenues from trade transactions (net of intra-entity activity) greater than $500 billion to report such intra-governmental revenue by trading partner. The Department of Treasury did not have earned revenues from trade transactions greater than $500 billion for fiscal year 2000.

Other Accompanying Information

A. Tax Burden

The tables below present the latest available information on income tax and on related income, deductions, and credits for individuals by income level and for corporations by size of assets. The information illustrates the tax burden borne by different income and asset brackets. The tables are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.

Individual Income Tax Returns (Tax Year 1998 Data)

	Size of Adjusted Gross Income (in thousands)					
	Under $15	$15 under $30	$30 under $50	$50 under $100	$100 under $200	Greater than $200
Total returns	40,185,658	30,017,032	21,108,693	23,107,805	6,266,258	2,085,210
Gross income	$244,788,823	$662,404,951	$911,149,007	$1,600,966,435	$833,000,473	$1,215,173,868
Adjusted gross income	$241,187,654	$655,967,345	$903,288,952	$1,588,255,154	$822,620,525	$1,204,653,318
Tax	$8,471,127	$47,580,911	$91,614,035	$203,384,619	$144,634,586	$317,883,579
Tax burden % of gross income	3.46%	7.18%	10.05%	12.70%	17.36%	26.16%
Average Tax per Return	$211	$1,585	$3,964	$8,802	$23,081	$152,447
Deductions on Taxable Income						
Standard deduction	$175,571,449	$143,733,533	$87,531,106	$47,449,414	$4,023,816	$1,148,056
Itemized deduction	15,391,190	47,110,977	99,777,139	243,286,611	135,012,186	135,882,236
Medical & dental expense	5,590,224	8,585,210	6,988,038	7,816,523	2,262,398	741,911
Interest paid	5,335,423	19,063,831	44,851,655	107,708,681	54,494,001	40,170,721
Charitable contributions	1,093,881	5,593,808	12,033,861	31,976,948	19,611,686	38,929,894
Other itemized deductions	3,371,662	13,868,128	35,903,585	95,784,459	58,644,101	56,039,710
Total Deductions	$190,962,639	$190,844,510	$187,308,245	$290,736,025	$139,036,002	$137,030,292
Total Expenditures - Deductions	$6,607,307	$13,702,636	$18,824,479	$36,923,475	$24,136,650	$35,847,124
Credits Against Tax Liability						
Child care credit	$34,755	$598,513	$686,237	$1,020,689	$265,731	$54,646
Credit for elderly and disabled	24,977	10,709	0	0	0	0
Foreign tax credit	9,149	37,722	74,218	289,491	576,619	3,689,824
EITC, offset tax liability	158,252	2,073,595	178	0	0	0
Other Credits	458,364	4,038,432	5,714,847	8,177,382	861,275	1,200,328
Total Credits	$685,497	$6,758,971	$6,475,480	$9,487,562	$1,703,625	$4,944,798
Total Expenditures – Individual	$7,292,804	$20,461,607	$25,299,959	$46,411,037	$25,840,275	$40,791,922

(All figures are estimates based on samples provided by the Statistics of Income Office)

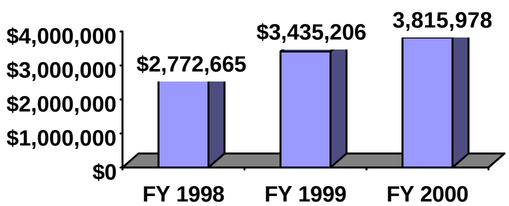
Corporation Income Tax Returns (Tax Year 1997 Data)

	Size of Total Assets (in thousands)					
	Under $1,000	$1,000 under $10,000	$10,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	Greater than $250,000
Total returns	4,251,826	388,011	44,499	8,732	7,998	9,017
Total receipts	$2,230,122,165	$2,319,443,690	$1,396,669,802	$534,328,542	$779,785,500	$9,349,357,603
Taxable income	$31,667,732	$27,266,215	$26,497,656	$16,526,056	$30,806,780	$550,484,908
Total tax	$8,198,548	$8,474,313	$8,678,505	$5,398,875	$9,905,916	$143,519,836
Tax burden – % of gross total receipts	0.37%	0.37%	0.62%	1.01%	1.27%	1.54%
Average Tax per Return	$1,928	$21,840	$195,027	$618,286	$1,238,549	$15,916,584
<u>Deductions on Taxable Income</u>						
Net operating loss	$10,621,184	$5,371,525	$4,513,693	$2,599,096	$3,955,878	$33,335,518
Dividends received	2,116,064	1,054,429	1,701,525	1,596,531	4,188,210	175,965,936
Public utility dividends paid	15	-	-	-	11	51,957
Total Deductions	$2,175,575,509	$2,274,230,949	$1,363,241,635	$515,318,987	$739,599,396	$8,636,275,760
Total Expenditures – Deductions	$8,049,629	$8,414,655	$8,452,098	$5,204,722	$9,392,912	$132,998,647
<u>Credits against Tax Liability</u>						
Foreign tax credit	$445,087	$54,260	$151,040	$151,147	$437,706	$40,960,318
U.S. possessions tax credit	7,270	30,685	147,334	168,993	369,168	1,998,729
Non conventional source fuel credit	13,705	3,981	9,880	4,864	9,274	1,041,627
General business credit	150,200	78,744	104,639	85,348	172,909	4,494,528
Other credits	131,598	135,564	131,913	83,116	146,228	3,501,334
Total Credits	$740,860	$303,234	$544,806	$493,468	$1,135,285	$51,996,536
Total Expenditures - Corporation	$8,797,489	$8,717,889	$8,996,904	$5,698,190	$10,528,197	$184,995,183

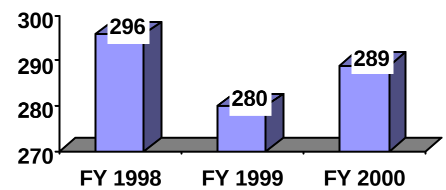
PROMPT PAYMENT

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and service, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Both Bureau of Alcohol, Tobacco, and Firearms (ATF) and the Federal Law Enforcement Training Center (FLETC) replaced its core financial systems during the fiscal year. Problems generally associated with the conversion of a new financial system resulted in an increased number of late payments and interest penalties. Bureaus have taken actions to resolve these problems, and improvements will be reflected in FY 2001.

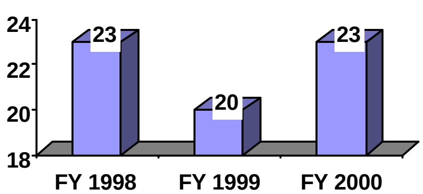
Total Invoices Paid Dollar Amount (in Thousands)



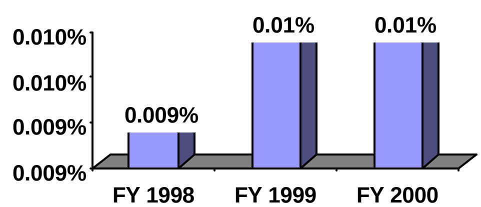
Total Invoices Paid Number (in Thousands)



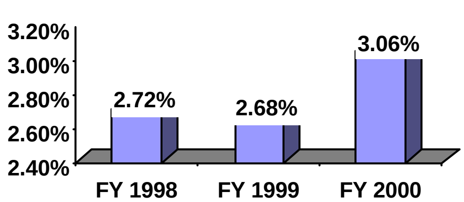
Total Invoices Paid Late Number (in Thousands)



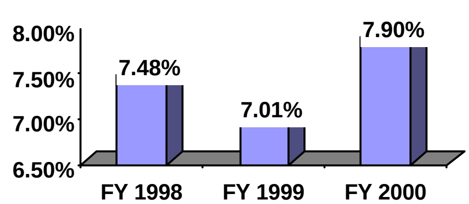
Percentage of Dollar Amount of Interest Penalties Paid



Percentage of Number of Interest Penalties Paid



Percentage of Invoices Paid Late



Performance Measures Cited in Accountability Report

Economic Mission:

PROMOTE A PROSPEROUS AND STABLE AMERICAN AND WORLD ECONOMY

Objective: Help bring residents of distressed communities into the economic mainstream by Promoting fair and efficient delivery of credit and other financial services

	FY 1997 Performance	FY 1998 Performance	FY 1999 Performance	FY 2000 Target	FY 2000 Performance
CDFI: Number of CDFIs receiving assistance	31	112	125	135	100
CDFI: Amount of investment by Bank Enterprise Award (BEA) awardees to distressed communities ($ millions)	--	--	--	$700	$1,100

Objective: Improve and modernize the U.S. financial system

	CY 1997 Performance	CY 1998 Performance	CY 1999 Performance	CY 2000 Target	CY 2000 Performance
OTS: Percentage of thrifts that received each type of examination to those scheduled to be examined:					
Safety and Soundness	96%	97%	98%	95%	98%
Compliance (including CRA)	98%	98%	99%	95%	99%
Holding Company	83%	87%	88%	90%	91%
Information Systems	78%	--	--	85%	102%
Trust	63%	88%	83%	80%	91%
OCC: Percentage of critical work outlined in large bank strategies completed	--	--	100%	100%	100%
OCC: Percentage of FDICIA examination exceptions after 6/30/00 related to conversions, mergers, systems conversions, etc.	--	92%	92%	100%	98%

Objective: Protect the public and prevent consumer deception in the alcohol, tobacco, firearms and explosives industries					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
ATF: Number of corrections made to unsafe conditions and product deficiencies reported to ATF or discovered during ATF inspections	677	1,071	923	825	1,119
ATF: Number of industry seminars held on ATF-regulated commodities	--	227	229	175	175

Objective: Promote economic growth and sound policies in developing and transitional economies					
	CY 1997 Performance	**CY 1998 Performance**	**CY 1999 Performance**	**CY 2000 Target**	**CY 2000 Performance**
DO: Economic conditions in developing economies (overall percent change in Gross Domestic Product from the prior calendar year)	+5.7% in GDP	+3.5% in GDP	+3.8% in GDP	Maintain or improve GDP	+5.6% in GDP (est)
DO: Economic conditions in transitional economies (overall percent change in Gross Domestic Product from the prior calendar year)	+1.6% in GDP	-0.8% in GDP	+2.4% in GDP	Maintain or improve GDP	+4.9% in GDP (est)

Objective: Strengthen international financial institutions that promote global economic stability and support developing and transitional economies					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
DO: U.S. meets current financing commitments and pays all arrears to Multilateral Development Banks (MDBs) (value of arrears; $ millions)	$862	$638	$335	$451	$451

Objective: Monitor the global economy and promote international economic growth through cooperation on economic policy

	CY 1997 Performance	CY 1998 Performance	CY 1999 Performance	CY 2000 Target	CY 2000 Performance
DO: Economic conditions in foreign countries which are major U.S. trading partners (percent change over the prior calendar year in Gross Domestic Product of six major U.S. trading partners)					
Canada	--	+3.3%	+4.5%	Growth	+4.7% (est.)
European Union (Euro area)	--	+2.7%	+2.5%	Growth	+3.5% (est.)
United Kingdom	--	+2.6%	+2.2%	Growth	+3.1% (est.)
Mexico	--	+4.9%	+3.5%	Growth	+6.5% (est.)
Japan	--	-2.5%	+0.8%	Growth	+1.4% (est.)
China	--	+7.8%	+7.1%	Growth	+7.5% (est.)

Objective: Facilitate legitimate trade and enhance access to foreign markets

	CY 1997 Performance	CY 1998 Performance	CY 1999 Performance	CY 2000 Target	CY 2000 Performance
DO: U.S. Exports ($ billions) (Measures the value of goods and services the U.S. exports to other countries.)	$937	$933	$956	Level achieved	$1,068
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
Customs: Compliance rate: Imports (percent of all cargo entry lines with no major discrepancies with trade laws and regulations)	81%	81%	83%	90%	90%

Financial Mission:
MANAGE THE GOVERNMENT'S FINANCES

Objective: Increase compliance with tax laws

	FY 1997 Performance	FY 1998 Performance	FY 1999 Performance	FY 2000 Target	FY 2000 Performance
IRS: Percent of calls to toll-free telephone assistance lines that were answered by appropriate customer assistor personnel (level of service - toll free)	--	70%	53%	58%	61%
IRS: Accuracy rate for answers to questions regarding tax law on the toll free telephone line (tax law accuracy rate - toll free)	96%	94%	74%	80%	73%
IRS: Average quality rating given to field collection cases reviewed (field collection quality)	--	--	86%	86%	83%
IRS: Average quality rating given to field examination cases reviewed (field examination quality)	--	--	65%	68%	57%

Objective: Improve Federal non-tax delinquent debt collection

	FY 1997 Performance	FY 1998 Performance	FY 1999 Performance	FY 2000 Target	FY 2000 Performance
FMS: Increase debt collection through all available tools form the FY 1998 baseline of $1.988 billion to $2.3 billion. ($ billions)	--	$1.988	$2.631	$2.081	$2.629
FMS: Percentage of the amount of delinquent debt that is referred to Treasury for collection, as compared to the amount of delinquent debt that is eligible for referral.	32%	--	71%	75%	83%

Objective: Ensure all Federal payments are accurate and timely					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
FMS: FMS will make Treasury payments and associated information electronically	58%	63%	68%	75%	70%

Objective: Ensure that the government's cash management minimizes risk and provides immediate flow and balance information					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
FMS: FMS will collect electronically the total dollar amount of Federal government receipts	52%	69%	72%	71%	75%

Objective: Provide accurate and timely information on the government's financial status and support the Government-wide implementation of accounting standards					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
FMS: Percentage of days the *Daily Treasury Statement* is released on time	97%	98%	100%	99.6%	100%

Objective: Ensure the effective management and/or investment of funds in Treasury's custody					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
BPD: Percentage of Government Securities Investment Program (GSIP) Transactions Processed Accurately	--	--	100.00%	99.90%	99.98%

Objective: Cost-effectively financial the government's operations					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
BPD: Percentage of customer service transactions completed in 4 weeks (savings bonds)	88%	93%	97%	90%	98%
BPD: Percentage of *TreasuryDirect* customer service transactions completed within 3 weeks	95%	99%	98%	90%	97%
BPD: Percentage of auction results announced within one hour of completion of auction	90%	98%	100%	95%	100%

Objective: Increase the productivity and efficiency of coin and currency manufacturing					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
BEP: Manufacturing costs for currency (dollar cost per thousand notes produced)	$18.65	$24.34	$25.87	$24.29	$22.65
BEP: Manufacturing costs for stamps (dollar cost per thousand stamps produced)	$1.36	$1.39	$1.31	$1.59	$1.46
Mint: Manufacturing cost of coins (cost per 1000 units of circulating clad and nickel coinage [including metal])	--	--	$31.27	$34.48	$39.18
Mint: Percentage of coins shipped within time standard					
Commemorative Coins	--	82%	--	98%	87%
Recurring Coins	--	97%	--	98%	90%

Objective: Continue to explore mechanism for maintaining the integrity of U.S. coin and currency					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
BEP: Currency shipment discrepancies (per billion notes)	--	19.2	9.2	10.0	1.2
Mint: Losses per billion dollars of reserve value (in dollars)	--	--	$0.0	$0.0	$0.0

Law Enforcement Mission:
SAFEGUARD OUR FINANCIAL SYSTEMS, PROTECT OUR NATION'S LEADERS, AND SECURE A SAFE AND DRUG-FREE AMERICA

Objective: Dismantle domestic and international money laundering networks					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
Customs: The value of all forms of monetary instrument seizures ($ millions)	$240.5	$426.6	$329.7	$336.6	$204.1
FinCEN: Number of tactical cases completed (# of subjects)	23,573	26,732	36,483	28,000	39,209
FinCEN: Number of tactical cases completed (# of cases)	6,739	6,816	6,868	6,500	6,151
TFF: Number of days elapsing between forfeiture of real property and disposal	330	421	394	365	337
TFF: Number of days required to process equitable sharing payments	284	271	219	200	297

Objective: Reduce counterfeiting and other criminal threats to our financial system					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
USSS: Counterfeit passed per million dollars of genuine U.S. currency	$77	$92	$78	$95	$76
USSS: Counterfeit notes passed on to the public – in U.S. ($ millions)	$31.8	$40.0	$39.2	$45.0	$39.7

Objective: Deny the smuggling of illicit drugs at land borders, airports, and seaports					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
Customs: Narcotics seizures (pounds in thousands) Heroin Cocaine Marijuana	2.4 157.9 726.2	3.0 157.0 956.0	1.9 160.4 1147.6	1.9 172.0 1,300.0	2.6 150.0 1291.0
Customs: Compliance rate: Air travel (percent of air passengers in compliance with all Federal, State and local laws and regulations)	97.6%	97.7%	97.4%	97.7%	98.4%
Customs: Targeting efficiency - Vehicles (comparison of the number of violations found during targeted selective examinations to a random sample)	9.0	9.0	8.3	10.5	11.1
Customs: Cycle time - Air travel (average time in minutes for 95 percent of air passengers to clear Customs from checked luggage retrieval to exit)	5	5	5	5	5

Objective: Deny criminal access to firearms and reduce the risk of violent crime in our communities					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
ATF: Firearms crime related costs avoided ($ billions)	$0.93	$0.99	$1.05	$1.00	$1.56
ATF: Number of firearms trace requests submitted	191,378	188,299	209,126	225,000	209,369

Objective: Protect our nation's leaders and visiting dignitaries					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
USSS: Number of travel stops	5,223	5,131	5,723	--	7,358
USSS: Percentage of instances Protectees arrive and depart safely	100%	100%	100%	100%	100%

Objective: Enhance basic, advanced, and in-service training programs to meet changing needs and increasing demands					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
FLETC: Variable unit cost per student-week of basic training	$127	$129	$165	$149	$146
FLETC: Student-weeks of basic training conducted	--	100%	100%	100%	100%

Management Mission:
CONTINUE TO BUILD A STRONG INSTITUTION

Objective: Procure quality goods and services at a fair and reasonable price and in a timely manner					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
DO: Percentage of procurement personnel who are certified	--	--	--	75%	80%

Objective: Strengthen Treasury's ability to ensure proper and effective oversight of bureau operations					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
TIGTA: Amount of potential $ savings identified from audit recommendations ($ millions)	--	--	$192.0	$102.0	$117.1
TIGTA: Number of taxpaying entities for whom tax administration is improved as a results of audit recommendations made during the fiscal year (in millions)	--	--	9.1	10.2	11.3
TIGTA: Percentage of criminal investigative reports referred for prosecution within one year of case initiation	--	--	80%	80%	85%
OIG: Amount of potential $ savings identified from audit recommendations ($ millions)	$60.9	$83.4	$83.0	$46.0	$60.9
OIG: Percentage of investigations completed within 12 months	51%	22.5%	62%	75%	75%
OIG: Investigative monetary benefits ($ thousands)	$1,008.4	$209.5	$707.6	$350.0	$242.5

Objective: Improve Customer Satisfaction					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
IRS: Satisfaction level of callers to the IRS toll free assistance telephone line	--	--	3.5	3.6	3.5
IRS: Satisfaction level of persons helped by personnel at IRS assistance offices	--	--	6.4	6.5	6.5
IRS: Satisfaction of taxpayers contacted by field and office exam personnel for a field or office audit	--	--	4.1	4.4	4.4
IRS: Satisfaction of taxpayers contacted by field collection personnel to resolve a case assigned for collection of taxes owed	--	--	3.9	3.9	4.6
TIGTA: Percentage of customer survey respondents who indicate TIGTA's products and services are satisfactory	--	--	--	Baseline	62%

Objective: Improve Employee Satisfaction					
	FY 1997 Performance	**FY 1998 Performance**	**FY 1999 Performance**	**FY 2000 Target**	**FY 2000 Performance**
IRS: Employee satisfaction (Service-wide)	--	--	55%	55%	59%
TIGTA: Percentage of employee survey respondents who indicate the work environment within TIGTA is positive	--	--	--	Baseline	74%